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PREPARATION FOR THE 1990 FARM BILL

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

EXPORT AND MARKET DEVELOPMENT PROGRAMS AND TO EXAMINE THE EXPORT ENHANCEMENT PROGRAM, THE EXPORT CREDIT GUARANTEE PROGRAM, THE TARGETED EXPORT ASSISTANCE PROGRAM, AND THE COOPERATOR PROGRAM

FEBRUARY 6, 1990

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CONTENTS

Page

Hearing held on February 6, 1990 1

TUESDAY, FEBRUARY 6, 1990

PREPARATION FOR THE 1990 FARM BILL

EXPORT AND MARKET DEVELOPMENT PROGRAMS

Boren, Hon. David L., a U.S. Senator from Oklahoma 1
Bond, Hon. Christopher S. "Kit", a U.S. Senator from Missouri, prepared statement 3
Gorton, Hon. Slade, a U.S. Senator from Washington, prepared statement 3

CHRONOLOGICAL LIST OF WITNESSES

Anderson, R.E., Jr., Administrator, Foreign Agricultural Service, U.S. Department of Agriculture, accompanied by Paul Dickerson, General Sales Manager and Associate Administrator; Christopher Goldthwait, Assistant General Sales Manager and Assistant Administrator for Export Credits; and Philip Mackie, Assistant Administrator, Commodity and Marketing Programs 4
Prepared statement 20
Allen, William R., Jr., president and chief executive officer, Union Equity Co-Operative Exchange, Enid, OK 34
Prepared statement 39
Letter of with enclosure, dated March 12, 1990, to the Honorable David Boren 42
McCoy, Steven A., president, North American Export Grain Association, Washington, DC, prepared statement 43
The Export Enhancement Program (EEP): a Proposal for Change—Recommendations of the North American Export Grain Association, May 1989 50
Andersen, Wayne, executive vice president and manager of the International Banking Division of CoBank—National Bank for Cooperatives, Denver, CO .. 54
Prepared statement 57
Charts:
International Services 62
International Loan Volume 63
Commodities Financed 64
Correspondent Banking Relationships 65
Absence of Trade Finance Is Hurting the Export Trade Most, National Farm Finance News, dated October 27, 1989 66
U.S. Banks Accused of Failing to Meet Needs of Exporters, by Beatrice Motamedi, The Washington Post 69
Letter of, to Mr. Melvin E. Sims, General Sales Manager, Foreign Agricultural Service, Department of Agriculture 70
Curtis, Alex, president, Farmers Grain Terminal, Greenville, MS 73
Prepared statement 76
Drazek, Paul, assistant director, National Affairs Division, American Farm Bureau Federation, Washington, DC 81
Prepared statement 83

Page

Wilson, Winston, president, U.S. Wheat Associates, Inc., Washington, DC 87
Prepared statement 90
Comparative U.S. and Canadian Spring Wheat Sale Prices to Japan and the Philippines, table 97
La Touf, Larry, chairman, Foreign Operations Committee of the National Cotton Council of America, Bakersfield, CA 98
Prepared statement 101
Graves, David, president, Rice Millers' Association, Washington, DC 105
Prepared statement 108

PREPARATION FOR THE 1990 FARM BILL

Export and Market Development Programs

TUESDAY, FEBRUARY 6, 1990

U.S. SENATE, SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:12 p.m., in room SR-332, Russell Senate Office Building, Hon. David L. Boren (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Boren, Conrad, Baucus, Cochran, Boschwitz, Bond, and Gorton.

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. We're going to go ahead and begin.

Unfortunately, we have a vote due on the floor in about 3 or 4 minutes, but I think what I will do is go ahead and call the meeting to order and make some opening remarks. Senator Conrad is going to go on over and vote first on the rollcall and then immediately come back, and that will give me a chance to run over and vote, and then we can carry on without interruption to save time.

The agricultural sector is dependent on its markets abroad, and to help in that effort, Congress has enacted several tools both to help our farmers develop new markets and to counter heavy European export subsidies.

I have always said that our producers should compete with producers anywhere in the world. Instead, however, we are being forced very often to compete with foreign governments. For example, EC export restitution subsidies have reached over $170 per metric ton while Export Enhancement Program bonuses rarely exceed $50 per ton. As a rule of thumb, EC restitution subsidies usually triple our EEP payments.

Unfortunately, our subsidizing competition shows no intention of discontinuing these practices. In fact, the European Community has no incentive to reduce their export subsidies as long as they think they can outlast America's willingness to compete in foreign markets.

Congress therefore needs to send a signal, both to our agriculture industry and to our competitors, that the export and market development policy of the United States will be maintained and even strengthened.

In this final year of the GATT negotiations, our competitors must be shown that we are in the marketplace to stay. Therefore I believe it is imperative that the Agriculture Committees address international trade issues very, very early as the farm bill proceeds.

I have scheduled this hearing to examine four particular programs on which our producers depend the most: the Export Enhancement Program, the Export Credit Guarantee Program, the Targeted Export Assistance Program, and the Cooperator Program.

Last fall, both the General Accounting Office and the USDA's Inspector General released reports alleging mismanagement and lack of accountability in several of these programs. These charges concern me greatly, and on November 29 of this past year, I joined with Senator Cochran in writing the Agriculture Department for their views on the alleged shortcomings of these programs. Unfortunately I have to say we have not yet received a response to our letter of about now over 2 months ago.

We must work to solve the problem, but we must not let these problems, if they exist, jeopardize our continued use of these important tools. In general I believe these programs should be continued, and I will push to reauthorize them in one form or another in the farm bill. These programs are all that our producers have to help them against competition, which is willing to bankroll unfair subsidies and erect barriers against our products. American agriculture deserves to have its government in its corner and stand by it under such circumstances, and it deserves a Foreign Agricultural Service which will administer these programs effectively and efficiently.

I know that Secretary Yeutter is scheduled to formally present the administration's farm bill proposal before the full Senate Agriculture Committee tomorrow morning. However, it is my understanding that the administration will propose to continue these programs largely in their current form. Therefore I don't believe it would be improper to focus on these specific programs and their alleged shortcomings.

Hopefully, we can get a clear picture of how the administration plans to address any problems and make changes or to streamline these programs.

The subcommittee especially welcomes our industry guests, and we look forward to hearing all comments, complaints, constructive suggestions about these programs, especially from those of you who are day-to-day users and have the first-hand experiencing in dealing with them.

So we welcome all of you. We look forward to your testimony. We will proceed ahead. As I say, Senator Conrad will be back, and we expect that Senator Cochran and others may be able to join us. We have action on the education bill pending on the floor, which we did not know was going to be up at the same time when we scheduled the hearing, so I am afraid we'll have something of a revolving membership here, but I want to assure you that doesn't indicate any lack of interest or attention to the testimony that you will be giving, and we are going to share, of course, your testimony, with all the members of the committee.

We will insert the statements of Senators Bond and Gorton in the hearing record.

[The prepared statements of Senators Bond and Gorton follow:]

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, I commend you for your scheduling expertise—this afternoon's hearing comes on a day of great excitement in agriculture. This morning, Secretary Yeutter unveiled USDA's long awaited farm bill proposals. While I have not had a chance to review them thoroughly, it is clear that a great deal of work went into the document. Their proposals will no doubt add to the excitement of the 1990 farm bill. The provisions dealing with international trade will certainly add to this afternoon's hearing.

Agricultural exports remain one of the few bright spots of U.S. trade. In 1989, U.S. agricultural trade had a surplus of more than $18 billion ($40 billion in exports and $21.5 billion in imports), and supported 900,000 jobs. In Missouri, agricultural exports totaled more than $1 billion and accounted for approximately 30 percent of total farm marketings.

As we look to the 1990 farm bill it is important to review those factors which contributed to this resurgence in international trade. First, we should recognize factors such as the value of the dollar, growth in importing countries, and U.S. interest rates. While beyond the direct influence of this committee, these factors are extremely important. There is no doubt that the value of the dollar is crucial; despite increases last year, the value of the dollar has fallen significantly since 1985. In developing countries, foreign debt stifles growth and requires significant exports to generate much needed foreign currency. Finally, the massive U.S. Federal budget deficit increases interest rates—making our producers less competitive.

At the same time, however, programs authorized by the Food Security Act of 1985 have no doubt been successful in restoring international competitiveness. This success is the result of a combination of lower loan rates, subsidized sales, promotion programs and credit guarantees. Have they been expensive? Yes. Are they worth the expense? Yes.

However, we have to realize that we do not compete in a free market. Our policy to counter the subsidized sales of our competitors, primarily the European Community, is working. It makes no sense to let up now. To the contrary, I believe we should be looking at ways to strengthen our export programs. At the same time, I believe we should be looking for ways to minimize the adverse impacts of these sales on third-party countries.

The 1990 farm bill provides an opportunity to review our current programs and make improvements. Maybe we can find ways to make them more cost-effective. Maybe we should devote more resources to value-added exports. Is there enough funding for the GSM–102 and 103 programs?

Recent events throughout the world suggest that vast new opportunities are developing. As the most productive nation in the world, the United States should position itself to take advantage of these opportunities. It is true that many of these markets are not mature, however with our help they may one day become cash customers of American agricultural products. I believe Secretary Yeutter understands this and is willing to work in this direction.

Mr. Chairman, I would like to briefly explain a very successful new initiative in Missouri. A few prominent producers, our Director of Agriculture, Mr. Charlie Kruse and Governor Ashcroft have fostered some close relationships with agricultural leaders in the Soviet Union. These relationships, unheard of prior to perestroika, have fostered genuine goodwill and friendship.

Not long ago, a Soviet agricultural delegation from the Ukraine spent a week touring the Show Me State. At the conclusion of their visit, a barter agreement was signed in which we would trade the Soviets soybean meal for fertilizer. And this is only the first step. It is my understanding that the Soviets are interested in several other Missouri products.

Although this type of agreement doesn't receive the same attention as the opening of a McDonald's, it is nonetheless very important.

Mr. Chairman, thank you for scheduling this afternoon's hearing and I look forward to hearing from our distinguished witnesses.

PREPARED STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM WASHINGTON

Mr. Chairman, I speak today in support of the Targeted Export Assistance (TEA) program. Since TEA was authorized under the Food Security Act of 1985, it has

proven itself to be an essential tool for facilitating agricultural exports. TEA provides American producers with funds to help finance export promotion activities for commodities that have been placed at a disadvantage by unfair trade policies of competing nations.

In testimony before Congress, USDA officials have described TEA as the shining star of its export programs. TEA funds have been used to promote a variety of products, including many from the State of Washington. Among those commodities for which TEA has proven exceptionally beneficial are apples, cherries, pears, potatoes, wheat, mink, wine, and forest products and plywood.

I fully expect TEA to be reauthorized under the 1990 farm bill. The administration has requested that TEA funding be continued at its present level of $200 million. I am a cosponsor of a bill introduced by Senator Baucus that would reauthorize the Targeted Export Assistance Program at $325 million. I believe this legislation continues U.S. commitment to fair play and the creation of a level playing field in agricultural trade. I strongly encourage my colleagues to support this initiative.

Senator BOREN. First we will hear from Mr. R.E. Anderson, Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture.

STATEMENT OF R.E. ANDERSON, JR., ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY PAUL DICKERSON, GENERAL SALES MANAGER AND ASSOCIATE ADMINISTRATOR; CHRISTOPHER GOLDTHWAIT, ASSISTANT GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR FOR EXPORT CREDITS; AND PHILIP MACKIE, ASSISTANT ADMINISTRATOR, COMMODITY AND MARKETING PROGRAMS

Mr. ANDERSON. Thank you, Mr. Chairman.

LET ME APOLOGIZE

First of all, let me apologize that a letter that you sent to the Department 2 months ago has not been answered. I recall reviewing that letter, coming up here for my testimony, so it must be somewhere in the bowels of USDA——

Senator BOREN. We'll blame the Post Office.

Mr. ANDERSON [continuing]. Because it has cleared my desk.

INTRODUCTION

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to come before you to discuss our Export Credit Guarantee Programs, the Export Enhancement Program and the Targeted Export Assistance Program, as well as our Cooperator Program.

I'd like to begin by summarizing my remarks and ask that a complete statement be included in the record.

Senator BOREN. That will be fine.

CREDIT GUARANTEE PROGRAMS—GSM–102/103

Mr. ANDERSON. We have used these programs aggressively as you have said to promote U.S. agricultural exports, and we feel we have made considerable progress in the past year and particularly in the past few months in strengthening the programs and improving the operations and the effectiveness of these programs.

We have worked closely with the Department's Office of Inspector General in an effort to evaluate and to improve the EEP and

the Credit Guarantee Programs, and our efforts have been extremely productive. In fact we have reached agreement with the OIG on each and every point raised by them in their audit report.

The Export Credit Guarantee Programs continue to play a critical role in helping to ensure the availability of short- and intermediate-term credit to finance commercial U.S. exports.

In fiscal year 1989, we announced nearly all of the mandated $5 billion in short-term credit guarantees for use in 26 countries, and exporters registered $4.8 billion in sales under that program. We have made almost $497 million of 3- to 10-year intermediate credit guarantees available, and sales registrations have amounted to over $425 million, a 45 percent expansion in 1 year.

In fiscal 1989, we expanded our risk analyses for the Credit Guarantee Programs, and we addressed a number of recommendations made by the Department's Inspector General. For example, we have more clearly delineated operational responsibilities and procedures; we have taken actions to establish a continuous verification process to publish the penalties for violating Federal regulations, and we have established a price monitoring system to ensure that program abuses are not supported by the Credit Guarantee Programs.

THE EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program, known as the EEP, is another extremely important initiative in helping make U.S. products more competitive in the world marketplace, offsetting the adverse effects of unfair trade practices as well as subsidies, and they have encouraged our trading partners to negotiate seriously on trade reform.

Since the EEP began in 1985, 105 initiatives have been announced for 65 countries; over 79 million tons of commodities have been sold, including roughly 70 million tons of wheat and wheat flour, 7 million tons of barley, and substantial quantities of barley malt, rice, frozen poultry, table eggs, vegetable oils, sorghum, poultry feeds and dairy cattle. Sales totaled more than $9.8 billion.

Through the end of fiscal year 1989, about $2.5 billion have been provided to U.S. exporters in bonuses under this program. For fiscal year 1990, up to $566 million in commodity certificates could be made available for bonuses.

We have made significant changes in the EEP procedures and program operations. For example, we have addressed concerns raised by the Department's OIG regarding bonus levels, accountability, price calculations, procedures, program criteria and evaluation. In addition we have drafted formal regulations for the EEP which have been cleared through the Department. These regulations were sent to OMB last week for final clearance before publication in the Federal Register. When published in the Federal Register, there will be a 60-day comment period.

Overall, the EEP continues to be an exceedingly important instrument for maintaining the U.S. share of markets where unfair trade practices prevail and for achieving export trade objectives.

THE TARGETED EXPORT ASSISTANCE PROGRAM

The Targeted Export Assistance Program, known as the TEA, is another area where we have been working diligently to improve the operations and effectiveness.

USDA announced TEA allocations totaling $200 million in fiscal 1989 for a wide range of promotional activities for 47 commodity programs in more than 100 foreign markets. The budget for fiscal 1990 continues the TEA program at the $200 million level.

The steps we have taken to improve the TEA program management include program guideline revisions dealing with evaluation and branded promotion, planning and evaluation workshops for participants, the publication of regulations covering program participation criteria and conflict of interest, and the preparation of formal regulations covering all aspects of program administration. Again, these regulations were sent to OMB last week for final clearance before publication in the Federal Register, and we will also have a 60-day comment period on those.

The General Accounting Office has suggested combining the TEA Program with the Cooperator Market Development Program for the sake of efficient program administration. Before taking this step, we feel we need to consider whether the needs of the different types of promotional activities and commodities assisted by the TEA and Cooperator Programs would be best served by such a merger. The Cooperator Program administrative framework may not be an optimal approach to managing programs for the types of consumer-ready and processed products which predominate in the TEA Program.

Our goal in each of the programs I have discussed—Credit Guarantees, EEP, TEA, and the Cooperator Program—is to keep the country's transition to a market-oriented agricultural policy on course, without abandoning pressure on our trading partners to move in the same direction, and to keep within the fiscal constraints under which all Federal programs must operate.

We will continue to work with Congress, the OIG, the GAO and others in our ongoing effort to improve the management of these programs.

Mr. Chairman, this completes my testimony. I would be very happy to answer any questions you or the members of the subcommittee may have.

I am also accompanied here today by our General Sales Manager and Associate Administrator, Paul Dickerson; Mr. Chris Goldthwait, the Assistant General Sales Manager and also the Assistant Administrator for Export Credits; and Mr. Phil Mackie, who is the Assistant Administrator for Commodity and Marketing Programs.

We would be happy to field any questions that the subcommittee would have.

Thank you.

Senator CONRAD [presiding]. Mr. Anderson, could you tell the subcommittee what was the authorized level for EEP in the most recent fiscal year, and how much did you use of that authority?

Mr. ANDERSON. In the most recent fiscal year, the authorization was $770 million, and we used $338 million in fiscal 1989.

Senator CONRAD. Why was only less than half of the amount that was authorized used?

Mr. ANDERSON. Well, basically, we saw a rather dramatic increase. As you know, the EEP Program is largely a wheat program in terms of the bulk of the program going for wheat export sales, and as a result of the short crop that we had, the prices were higher and the bonuses lower than had been expected.

Senator CONRAD. Well, I can tell you there are a lot of people in wheat country who feel that the Agency let down the wheat-producing parts of this country. I can tell you that in my part of the country there is a strong sense that the Agency just flubbed the management of EEP.

I can tell you I received a call one afternoon from people representing the Philippines, and they indicated that on quarterly sales they could not even get an answer from the Agency as to whether or not there was going to be an EEP offering. As a result, those sales were lost to the Philippines, a market that has traditionally been ours.

What would the explanation for that be? Why would people who are customers of ours, good customers of ours, not even be able to get an answer?

Mr. ANDERSON. Well, I think there could have been some misunderstanding in that regard because we knew very well that there was a request for an initiative to the Philippines. We addressed that at the appropriate level within the Department, and I know at the particular time, we didn't go forward with a recommendation largely because we had looked at the criteria under the program, and as you know, we were asked to review that program when I came back from overseas to take over the job as Administrator in May of 1989. We were in——

Senator CONRAD. Was the program put on hold?

Mr. ANDERSON. No, the program was not put on hold. We were required to do a study of the program and the effectiveness of the program——

Senator CONRAD. While you were studying the program were you told not to go forward with further EEP offerings?

Mr. ANDERSON. No, we were not told not to go forward. I think it did slow things down as we were trying to move to look at the program, to reevaluate the criteria under the program, and to direct it more, really, toward using it as a trade policy tool against exports from the European Community. And one of the problems, of course, that you have in the case of the Philippines is that, other than wheat flour going in there, there wasn't much EC wheat. It was largely Canadian wheat. So one had to build a case for an EEP initiative in the Philippines on EC wheat, subsidized EC wheat flour versus EC wheat, because most of the competition in that market was coming from the Canadians.

Senator CONRAD. Well, let me just say to you that when there is over $700 million of authority and less than half of that is used, it would suggest to many that the United States is not very serious about meeting competition out there. The Congress sent a very clear message that we intend to fight for markets. That is why there was the dollar amount provided for EEP, over $700 million. And then you use less than half of it.

What message does that send on the eve of the GATT round to our competitors? I'd suggest to you the message it sends is that the United States is not serious about engaging in this fight. And I will tell you, our European friends are serious. If you look at what they are offering in terms of virtually any commodity, it is triple the world market prices. And in wheat, we are seeing extremely high levels of support from our friends in Europe. And again I would ask you what kind of message does it send to our competitors when we don't even use half the program we have authorized.

Mr. ANDERSON. Well, we are very much aware of what the European Community is doing in regard to subsidizing its exports. It's got about a $30 billion farm program, $10 billion of which is going into export subsidies, and maybe as much as $4 billion of that is going to the grain side. So I think the Foreign Agricultural Service is very aware of what we should be doing out there to regain markets and to meet the subsidized competition.

Senator CONRAD. Well, do you think it is acceptable, then, that we use just over 40 percent of the money authorized in order to go out there and compete with those folks?

Mr. ANDERSON. Well, I think there were some circumstances that you have mentioned that we have discussed, particularly that the program was under some analysis at that point, and there was a tendency, I guess, at that point to look very closely at what we were doing relative to markets and the trade policy sort of effect we were having on various markets. Also, the price factor entered in there, due to the short wheat crop. There wasn't any intention on our part at all to slight any markets. We were moving forward on the initiatives that we felt we should be moving forward on at that time, and we were quite aware of what the competition was doing.

Senator CONRAD. Well, let me just say that many would conclude that we weren't moving forward at all; we were dead in the water would be a more apt description. And I honestly don't know what we say when our traditional customers, like the Philippines, are lost. What do we go back and tell our constituents? Down there, they are caught up in bureaucracy, and they are doing a study down there, but we're sorry, we lost that market. And goodness knows, we have people who come over here, West African millers, and they have their ships sitting down there, and they can't even get an answer from us. Day after day, I get called by the West African millers, and we can't even get an answer from USDA as to whether or not they are going to qualify for EEP and what kind of an EEP they are going to qualify for.

If we are going to be serious, this is a battle being waged for markets, and for some reason USDA has decided they aren't going to be a part of it. We are sitting on the sidelines, watching the markets drift away.

Mr. ANDERSON. Well, as I mentioned, we did get quite a number of bids from the West African millers. I am happy to say that we finally concluded 200,000 tons to West Africa. We were apart on the bonus levels, and we felt that our bonus calculations were more realistic, and in the end the bonuses that were granted on that 200,000-ton sale to West Africa were more in line with the bonus levels that we had thought should be paid.

So that was really a question of whether we should buy our way into that market with higher bonus levels or pay what we felt were bonus levels that would justify getting that business. In the end, we eventually did that business.

I think in the Philippines, you had a situation where we were unable to establish that the EC was in there with wheat, they were in there with wheat flour, so the case for the Philippines in terms of export bonus had to be made on the basis of wheat flour, and in the end we basically did that business with the Philippines and we did——

Senator CONRAD. Well, we lost several quarterly sales to them, number one. Number two, I can just tell you with respect to the West Africans, some of those folks are not even going to come back next year because they are so fed up with the hassle, the delay, the inability to get an answer that they just said, "Forget it. We don't have these hassles with the EC, and the United States is not interested in selling us wheat. We'll go somewhere else." And I'll tell you, that is a pretty pathetic reflection on our ability and our willingness to be out there and fight for markets.

And if we wonder why the United States has a serious problem with the balance of trade, a serious problem in the rural parts of this country, it is because we have folks who aren't serious about our trade situation.

I can tell you I called USDA late one Friday, and one of the people—I won't embarrass anybody by saying who it was—said to me, pretty embarrassing, that we can't even give an answer to our long-time customers. But they told me they were being restricted from people on top as to whether or not they could actually have an EEP offering.

And I tell you, it makes me wonder—and my final question to you would be—the administration has come in here with a $900 million budget for EEP. Last year, according to your testimony, you had over $700 million authorized, and you used $338 million—less than half of what was authorized. What would lead us to conclude the administration is serious about using this $900 million?

Mr. ANDERSON. Well, I can just reemphasize what I said to you. We had a situation where I think you will agree that price levels and bonuses—in fact during last summer, a significant quantity of wheat was sold on the world market without bonuses. For example, the Chinese took over 3 million tons without bonuses; the Russians bought over 800,000 tons without bonuses. There wasn't a need—given the price situation, that had an impact on the amount that was used.

But we, I can assure you, want to use this program and want to use it aggressively.

Senator CONRAD. In Durum, we have plenty of stocks-to-use ratio, we have plenty of stocks in Durum. My State is the number one producer of Durum, and we didn't go out there and use the program on Durum; why not?

Mr. ANDERSON. The program, of course, is for wheat, and we don't dictate the types of wheat that we sell in the program. We let the markets do that.

Senator CONRAD. Well, the market was saying that there was a need to do something about Durum, with the stocks-to-usage ratio the way it was, and we didn't do a thing.

Mr. ANDERSON. I think we moved as much Durum as we got requests for through the wheat initiatives.

Senator CONRAD. Well, I'll tell you the Durum growers will be mighty surprised to hear that, mighty surprised to hear that, because their sense is we were doing nothing. And when you look at the amount that was authorized and the amount that was used, I think it would be pretty hard to conclude that there was a serious effort out there to fight for markets.

Thank you, Mr. Chairman.

Senator BOREN [presiding]. Thank you very much, Senator Conrad, and thank you for sitting in for me while I went over to vote.

I want to ask one brief question, and then I'll turn to Senator Baucus, because I know that he is in the midst of negotiations on the Clean Air Act, which are also of great interest to us, and is going to need to go on.

But just one brief question. I know that the OIG report recommended that the FAS obtain an opinion from the USDA General Counsel in regard to transportation costs, stating that transportation costs could be calculated as a part of the EEP bonus. This is a matter Senator Cochran and I also raised in our letter, offering to assist in drafting such a proposal if you could not obtain such an opinion. I wonder if you have obtained such an opinion from the USDA General Counsel, and what is the status of that matter?

Mr. ANDERSON. Yes, we have obtained an opinion that the transportation costs can be included in our bonus calculations, and therefore the OIG has said we do not really have to carry out an analysis of that situation. So we have come to an agreement with OIG on that, and transportation costs can be included in the bonuses.

Senator BOREN. So there is no additional action now required legislatively?

Mr. ANDERSON. No, no additional action required.

Senator BOREN. Is that something you intend to actively pursue in terms of including transportation costs, to make the package more competitive?

Mr. ANDERSON. Yes, sir. We have done that, and we pushed very hard with the OIG at the time and were supported by our General Counsel's Office, and OIG is now in agreement with us on that point.

Senator BOREN. Good. Thank you very much.

Let me turn to Senator Baucus, and then I will go to my other colleagues and let them make opening comments and ask questions as well.

Senator Baucus, we appreciate your taking time out; I know every time I see you, you have about a dozen people huddled around you in negotiations. I know that is a signal of your strong interest in these Export Enhancement Programs that you are here.

We welcome any comments you might want to make and any questions you might like to ask Mr. Anderson before you have to leave.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Anderson, I'm sure it's not news to you to know that EEP is extremely popular in my State of Montana. We took a poll, that is, Montana State University took a poll of farmers in our State, to ask them their opinion of different components of the farm program, asking which components they liked and did not like and why, and the EEP came out on top. Eighty percent of Montana farmers strongly support the Export Enhancement Program.

That is the good news. There are some difficulties, though. That is, a lot of Montana wheat farmers produce not only Winter wheat but Spring wheat. So I have a question somewhat similar to that of the Senator from North Dakota, whose State produces a lot of Durum.

There is a sense in Montana that there is kind of an attitude problem within USDA in not really wanting to use EEP for Spring wheat as much as, say, for Winter. Now, you say the market makes the determination. But reading between the lines, listening to the music as well as to the words, I must tell you there is a strong sense among Spring wheat producers in my State that the EEP could be better utilized to help not only Winter but Spring wheat.

Could you tell us what the Department is doing to help with Spring wheat as well as Winter?

Mr. ANDERSON. Well, I don't have the exact data as to how much Spring and how much Winter wheat and how much Durum, but I'd be happy to provide it to the committee. Again it gets back to this issue of do you announce an initiative by class of wheat and get one class competing against another, or do you let the market determine that and the customer determine what it is he wants to buy. As you know, there are some Durum markets, there are some markets that prefer Spring wheats because of their higher protein and the way that helps in terms of their flour and mix. But before I got there the decision was basically made to go with wheat initiatives by country and let the country and the buyer and the seller basically determine what types of wheat the buyer wants. We have had in the past 2 years, as you know, one year we have had some serious problems in the Spring wheat crop, and the next year we had some serious problems in the Winter wheat crop. I think that may have aggravated——

Senator BAUCUS. Well, I am just asking—obviously, we don't want to favor one crop over another—but there is a sense that USDA is not paying enough attention to that, that it is not giving fair treatment to Spring wheat. So I'd ask you to go back and look at that.

Mr. ANDERSON. We certainly will, but I can assure you that we try to treat the various classes of wheat fairly.

Senator BAUCUS. Another question—why are forest products denied access to GSM-102 and 103?

Mr. ANDERSON. Well, it is denied access to 103 because of an understanding we have——

Senator BAUCUS. Is OMB blocking you?

Mr. ANDERSON. Well, there is an OECD agreement, basically, that we have been a party to, and in the case of export credits, we are sort of limited to I think it is somewhere under 2 years, between 18 months and 2 years.

I'd like to ask Mr. Goldthwait who is with me to perhaps address that in a little fuller detail.

Mr. GOLDTHWAIT. Mr. Anderson is correct in making reference to the OECD understanding to which the United States has been a party for a number of years. The agreement more or less limits the degree to which export credit can be given to products of a manufactured nature, and for the purposes of this agreement wood products have been interpreted to be—and this is not our interpretation; it is a standard interpretation—to fall under the jurisdiction of that agreement.

Senator BAUCUS. Have they asked you to change that interpretation?

Mr. GOLDTHWAIT. We have looked at the question a number of times, and it is our analysis that it is going to be extremely difficult to achieve a change in that agreement.

Senator BAUCUS. Is this part of a trade agreement?

Mr. GOLDTHWAIT. It is a trade agreement, yes.

Senator BAUCUS. So this would require a fast-track trade bill process in order to change—I can't believe that.

Mr. GOLDTHWAIT. Basically, it would require some agreement among the different countries that are party to that accord, the OECD nations.

Senator BAUCUS. Could the Department send to me an analysis of why forest products are not considered and what actions the Congress would have to take in order to be sure that they have access under GSM-102 and 103?

Mr. ANDERSON. We'd be happy to send you that. As you are probably aware, some forest products are moving, but the credit line under 102 is limited to 2 years or under.

Senator BAUCUS. Right.

Thank you, Mr. Chairman.

Senator BOREN. Thank you very much.

Senator Gorton.

Senator GORTON. I will defer to Senator Boschwitz.

Senator BOREN. Senator Boschwitz.

Senator BOSCHWITZ. I thank my colleague, and I would say to the Chairman I have to leave soon. I welcome Bud Anderson in his new capacity as head of the FAS to the committee. I think this is his first appearance here in that capacity. He is a distinguished Minnesotan. I first met you in London. I must compliment you—the new FAS representative in London is particularly strong and particularly adept. We had a very good luncheon with a number of people in London from the agriculture community.

I also met in Bonn with Mr. Kittle of Germany. That was a somewhat less productive meeting and a very difficult one, as a matter of fact. One of the things—and I'll just say this by way of statement as much as by question, Bud—one of the things that is aggravating is that as you drive through Germany or England and you see the fields with the tracks so that farmers can go and spray on the insecticides and herbicides and also the fertilizers, 10 or 12 times during the course of the growing season. That is really caused by the very, very high loans and supports that the Europeans have.

It has occurred to me after a discussion with Senator Gorton that perhaps the EEP should be used in a new and innovative manner. That is, in the event that producers, particularly the Europeans, are given particular advantage because of practices that are antienvironmental in nature, that the EEP should seek to balance that off; that the subsidy for export should take into account the antienvironmental elements of the European farm policy that we find ourselves competing against. There should be a penalty, an antienvironmental penalty that would be applied against those countries that are producing in a way that is not in accord with environmental values.

I think that we are going to see a farm bill in 1990 that is going to have far greater environmental pluses than did the 1985 farm bill. The 1985 farm bill compelled that certain things be planted. It rewarded the use of agricultural inputs. I think the flexibility in this new bill is going to not give a reward to these inputs, and will also allow us to respond more to world markets.

But one of the ways of responding, in my judgment, would be to use this program, which you oversee, for the purpose of negating some of the advantages that are created by antienvironmental practices on the part of other nations. That is more in the form of a statement. If you wish to respond, I would be happy to listen to your response.

Mr. ANDERSON. Well, as you know, Senator, as you mentioned, they do put on a lot more nitrogen and phosphates there. They have some serious problems with their ground water in England. Before that, I served 3 years in Holland, and half that country would be underwater if it weren't for the dikes. They have a very high ground water level, and they have some serious environmental problems. I think they are going to——

Senator BOSCHWITZ. Those problems are more animal-related, I believe, are they not?

Mr. ANDERSON. They are more animal-related in Holland than they are in England, that is true. So they will be probably reducing levels themselves.

As far as using the EEP in that regard, we have enough problems using it the way it is intended to be used in terms of trying to—it is not only a problem that the Department of Agriculture has an input into; each initiative, as you know, goes to an interagency group, and we all go before that interagency group and defend our initiatives, and we get decisions on those initiatives as a result of meeting with that interagency group.

So not all those decisions are made solely in agriculture.

Senator BOSCHWITZ. I understand. But we may never bring the Europeans to the point where they make changes in their common agriculture policy. We'll all be old and gray by the time they get around to doing that. This may be another means to move them along. I was told by Mr. Kittle and the Germans that they want to lay aside the Second World War and that they have gotten beyond that thinking, and that now, we and others should not object to their idea of unification after so many years of democratic practices in West Germany. I replied let's presume for a moment that I agree with that; you (the Germans) also ought to lay aside some of your agricultural thinking, that is dated from the same period

when you decided to have self-sufficiency, because you experienced starvation. While they don't want to change that policy, they want us to change other policies. I think they are all interrelated.

I understand an interagency group has to have a hand in this, but so does the Congress, and we indeed may look into this a little deeper.

Again, I welcome you to the committee, and I thank you, Mr. Chairman.

Senator BOREN. Thank you very much, Senator Boschwitz.

Senator Gorton.

Senator GORTON. Mr. Chairman, I do associate myself with the comments that Senator Boschwitz made to the effect that we should be looking forward to expanding some of these export enhancements to reflect not only differences in direct subsidies, but differences which are caused by some of these other environmental regulations here and sometimes antienvironmental regulations in other countries.

I have no questions for this witness. I welcome him here. I want to emphasize my enthusiastic support for the Targeted Export Assistance Program, which has been a great success with modest dollars. Senator Baucus, who was here earlier, and I have sponsored a bill which would substantially enhance that enhancement program for the next year over and above what the administration has asked for because it has had an extremely positive effect on many commodities, many crops in the State of Washington and across the country.

I think that it is an example of some of the ways in which we have been successful with a number of new methods of evening that playing field and becoming more competitive.

Senator BOREN. Thank you very much.

There are a few more questions that I want to ask, and let me say we will hold the record open for 10 days so that other members of the committee, those who have been present and those who have not been able to be present, can also address some questions to you.

We have had the question raised on the issue of content of foreign products guaranteed under GSM. We had the tobacco situation which arose; we had an apparent shift of policy from zero content up to 25 percent maximum allowable content, apparently then brought down to zero as policy. I think certainly many of us feel that there may be some exceptional circumstances where you might have to have a very, very small—and I mean by "small" 2 or 3 or 4 percentage points of content. But certainly in most situations, we don't have this program to enhance the export of foreign-produced products.

I wonder what is the current status of the foreign content policy, and is there any thought of revisiting this whole question again?

Mr. ANDERSON. I think I'll ask Mr. Goldthwait, who is a little closer to that than I am, to comment on it.

Senator BOREN. I might mention we have Mr. Christopher Goldthwait with us, Assistant General Sales Manager and Assistant Administrator for Export Credits. I believe you also have Mr. Philip Mackie with you, the Assistant Administrator for Commodity and Marketing Programs, and Mr. Paul Dickerson, the General

Sales Manager and Associate Administrator. I believe they are also with you, and we welcome them.

Mr. ANDERSON. That's right.

Mr. GOLDTHWAIT. I should begin by saying, perhaps, that this issue has been a very difficult one for us. To the degree possible, we like to cover the broadest possible scope of products under our programs.

The 25 percent policy that was in effect for some period of time proved to be very difficult from an administrative standpoint for a number of reasons, one of which was, as we looked across a variety of products, getting an exact fix on the particular value of the foreign content that we were dealing with.

We found that in many cases because of different transformations of the initial imported item, that in fact the port value, which was the only ready reference we had, did not prove to be a particularly valuable indicator of the actual share of the end-product that was of foreign origin. I use that only as one example.

We have conducted a serious study of this question over the past 6 months, which is very close to conclusion now. We began that study by soliciting comments from interested parties on the question through Federal Register notice. Our initial reading of those comments was that the sympathy in the industry as a whole is in favor of maintaining the 100 percent policy that is currently in effect.

We have done some additional work, talking at different times with different people who did express an interest in the question. We have also worked with our legal counsel to be sure that token quantities of nonagricultural origin that are foreign will not disqualify a product from coverage.

We expect to publish an additional policy notice on this question in the near future which will establish a permanent policy.

Senator BOREN. It is going to be much closer to the zero than it is to the 25 percent, I am sure.

Mr. GOLDTHWAIT. I would believe so, yes.

Senator BOREN. Let me ask also—I know you are familiar, Bud, with the problems in regard to the U.S. branches of foreign lending institutions and participation in the GSM program.

I wonder how does a bank become a qualified GSM lender, and do we now have publicized standards to be met—do we keep a list, for example, of qualified institutions? How does this work?

Mr. ANDERSON. We do have standards. We are constantly reviewing that. It is under review right now. Maybe Mr. Goldthwait could go into that.

Mr. GOLDTHWAIT. The procedure is somewhat different for U.S. bank participation and foreign bank participation. U.S. banks are eligible to participate if they are incorporated under standard banking laws of the Federal Government and the State in which they operate. This would mean that a foreign subsidiary bank that was duly registered and incorporated would be eligible to participate.

With respect to foreign banks, we review copies of their financial statements to establish certain levels of fiscal strength and in effect compile a list of eligible banks based on that information.

Senator BOREN. Is there any ongoing study of this? Are you satisfied now that we do have enough of a standardized policy that will avoid future problems?

Mr. GOLDTHWAIT. We are currently reviewing the policy particularly with reference to the foreign bank participation under the program. I think it is too early in our review to say that there will be specific changes in what we require, but I think we can say that we are going to take an extremely detailed and scrupulous look at the question.

Senator BOREN. About the GSM-102 authorized level, as you know, several Senators have written to the Secretary suggesting we go from $5 billion to $7 billion, and I gather that the decision has been made to stay at $5 billion, or this is the recommendation of the administration.

I wonder on what analysis was this decision based?

Mr. ANDERSON. As you said, the 1991 budget basically keeps those levels at $5 billion for GSM-102 and $500 million for the GSM-103 program. We, however, do feel that we need to take into consideration the changes that are really occurring in Eastern Europe and the Soviet Union and to analyze the credit needs in total.

One of the concerns that we have had and one of the criticisms that has been leveled against the Foreign Agricultural Service has been that, really, we have spread ourselves too thin on some of these programs. We have seen the doubling, basically, of that credit line with the farm bill from about $2.7 billion to the $5.5 billion level, and we have done it with fewer people in FAS. If we were to go with higher credit limits such as proposed by several of the Senators, another $2 billion, we would need some additional resources in FAS to operate that program effectively. We are not against operating at higher levels, but we want to do a good job with the program that we have. We think we are doing a good job. We would need additional resources if we went above that. But we are analyzing the situation in Eastern Europe and the Soviet Union in terms of credit needs in the future.

Senator BOREN. So I gather the door is not closed on revisiting this issue, adding to the authorization if we find that the conditions warrant it.

Mr. ANDERSON. That's correct.

Senator BOREN. What is the current default rate for this program?

Mr. ANDERSON. It is very low. As you know, the only major defaults that we have had really relate to Poland in the late seventies and early eighties, when about $1 billion of credit was extended there, and of course, with the declaration of marshal law in 1981, the Poles defaulted, and the CCC had to pick that up.

The other problem that we are having in terms of CCC exposure is when countries reschedule their debt, such as Mexico did. However, we are basically on a repayment schedule now with them. Those are really the only exposures. As you know, we collect fees up front on the 102 and 103 programs, and those fees are really designed to ensure that we don't have any exposure to CCC.

But other than those two, I think we are in pretty good shape in the program over the years.

Chris, do you want to comment on that?

Mr. GOLDTHWAIT. I think that sums it up pretty well. I might just add that as best we can tell, when we do our analysis, our rate is just a little worse, 1 or 2 percent worse, than the commercial bank sector, and that seems to be, I think, an acceptable level inasmuch as the program is designed to help the commercial banks go a little further than they ordinarily would.

Senator BOREN. Thank you.

One last question. The GAO, of course, has put forward a proposal to combine the TEA and the Cooperator Programs. I wonder what the administration's position is on that proposal from GAO?

Mr. ANDERSON. Well, the Cooperator Program, of course, has been part of the FAS since the program started I think in the late fifties. And as we moved into the TEA Program in fiscal 1986, we had a combined sort of market development effort that went from something a little over $30 million initially to another $110 million for TEA, and now $200 million. About three-quarters of the Targeted Export Assistance Program is really going for high-valued products and brand promotions. The market development program really has tended more toward generic promotion and some of the bulk commodities.

We at this point are really looking at that and wondering whether those two mesh very well in terms of folding them together, and we really have not responded to the GAO on that issue yet, but our feeling is that they do not, and our initial reaction is to try to keep them separate.

Senator BOREN. Thank you very much.

I may have a few other questions later to submit for the record, but to conserve time, let me turn to our colleague Senator Cochran who has joined us. He has been particularly active in this whole area and really a strong architect of our Export Enhancement Programs.

Senator Cochran, we would welcome any comments you have or any questions you would like to ask.

Senator COCHRAN. Thank you very much, Mr. Chairman, for your kind remarks. I appreciate having the chance to be here with you today and to thank you for conducting this hearing on the very important topic of trade and our position in the world marketplace, and having these witnesses here, whom I join you in welcoming. I look forward to hearing their comments on suggestions for the 1990 farm bill.

I am particularly glad to see that you have included a good constituent of mine, Alex Curtis, from Greenville, Mississippi as one of the panelists who will be on the next panel.

I have been pleased to see the progress that we have made, Mr. Chairman, in increasing market share. I know that our volume of exports from U.S. farms has increased very significantly. As a matter of fact, last year's volume of 148 million metric tons is the highest it has been in 5 years. It was valued at $35 billion.

I also want to point out that the commodities that are produced in my State that you think of when you talk about Mississippi agriculture—you think of cotton and rice and soybeans, specifically—so much of what we produce has to be sold in the international market. The U.S. cotton crop in 1989, for instance, most of it was

exported to foreign textile mills, 61 percent. Over 50 percent of the rice crop nationwide, 30 percent of the soybeans that are produced, are exported for sale in overseas markets. So export and market development programs, the reason I am pointing that out, have played such an important and necessary role in increasing our exports and expanding U.S. production capacity, and that is an important aspect of this to consider.

I know the 1985 farm bill, Mr. Anderson, contains some initiatives that in my view have worked, and I wonder if you would agree, including the Export Enhancement Program, Export Credit, Targeted Export Assistance Program, the Cooperator Program. Do you agree with me that we need to send a clear, strong message to our foreign competitors as we continue these GATT negotiations that we intend to stay in the farming business in America, and we intend to sell what we produce in the international market, and that it will help us and strengthen our hand if we have a strong trade title in the 1990 bill?

Mr. ANDERSON. I agree with you, Senator, that that is very, very important. When you look at the amounts of money that we are spending in some of our programs and look at what our major competitors are doing, like the European Community—we are spending this year $566 million for the Export Enhancement Program; the European Community is probably going to spend $10 billion on their export subsidies—it is very important. We can't really do much more than go into some markets that the European Community has nearby and try to make the point that the export subsidies and negotiations in the GATT on export subsidies are very important.

These programs, the Targeted Export Assistance Program, the Export Enhancement Program, our GSM programs, have really been very instrumental in bringing our exports from the low of $26 billion we had in the mideighties up to, in fact, it is a little higher this last fiscal year, we got up close to $40 billion. It is very, very important, and we intend to operate these programs in a manner so that we can get maximum effectiveness out of them and enhance to the best of our ability the exports of the United States in the process.

Senator COCHRAN. Thank you.

Thank you, Mr. Chairman.

Senator BOREN. Thank you very much, Senator Cochran.

Let me again say, Mr. Anderson, that we appreciate your being here. As you can tell from the comments of the members of the committee, these various tools that we have are strongly supported by this committee. We will be moving out, as I say, very early on in this section, as we write the farm bill.

I would go back to what Senator Conrad said in the beginning, as well as other members of the committee have indicated, that we are convinced that these tools have really made a difference in terms of us regaining some of our lost shares of markets earlier, in terms of getting the volume of our exports up. We are concerned that we make as aggressive a use of it as possible. I think many would share the concern Senator Conrad had that we haven't used our authorized levels in the past. We understand the guidelines you are following, but let me just urge you on so that if we are suc-

cessful in increasing the amount that the amount authorized be fully and aggressively used, because we are convinced that we pay a terrible, terrible price in terms of our trade imbalances. We have been able to make positive improvement here in the agricultural account. It is a very important contribution to the whole economic situation in this country as well as just the agricultural sector.

So the message from the committee is we would urge you on. We know that you are committed to this program. You are never going to displease this committee by being as aggressive as you possibly can be in terms of making full use of the tools and full use of the amount of funds that are authorized for this purpose.

So that would really be our parting, bottom-line message to you.

Mr. ANDERSON. Thank you very much, Mr. Chairman.

Senator BOREN. We thank you and your colleagues for being here.

[The prepared statement of Mr. Anderson follows:]

Statement By
R. E. Anderson, Jr., Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the
Subcommittee on Domestic and Foreign Marketing and Product Promotion
Senate Committee on Agriculture, Nutrition, and Forestry
February 6, 1990

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to come before you to discuss our export credit guarantee programs, the Export Enhancement Program, and the Targeted Export Assistance program.

Credit Guarantee Programs (GSM-102/103)

The Commodity Credit Corporation's (CCC) export credit guarantee programs play a critical role in maintaining and expanding foreign markets for U.S. agricultural commodities and products. Under these programs, the U.S. government guarantees payments to be made under qualifying foreign bank letters of credit. These guarantees play a critical role in ensuring the availability of short-term and intermediate-term financing for commercial U.S. agricultural exports because they encourage U.S. financial institutions to extend the credit needed by many overseas purchasers.

The CCC Export Credit Guarantee Program (GSM-102) extends short-term financing assistance -- that is, guarantees for credit sales for which the repayment terms are three years or less. The GSM-102 programs has created substantial and diverse opportunities for U.S. exporters. Each year, CCC establishes and announces programs identifying specific amounts available for participating countries, allocating lines of credit among more than eighty different commodities and products. In fiscal year 1989, 26 different country programs were announced, with a total available guarantees closely approaching the Congressionally mandated figure of $5 billion. In that year. U.S. exporters registered sales with this program of approximately $4.8 billion.

We expect that use of the GSM-102 program will continue at that level for the near term. Aggressive sales promotions, in addition to an increased need for credit by many importing countries, has stimulated demand for U.S. agricultural exports under this program. GSM has been a crucial factor in helping U.S. exporters to enter or retain a number of important markets. For example, as a result of this program, we have strengthened our position in the Algerian solid wood products market; and the United States has been able to maintain a significant commercial market in Mexico. Many in the Congress and in industry have asked whether the dramatic changes taking place in Eastern Europe, as well as increasing demand in other parts of the world, may create additional pressures to expand the program. Clearly, we will need to continue to allocate effectively all available resources to promote and maintain our current level of trade and may eventually have to consider allocation of additional resources to meet in creased demand. Of course, any further expansion of the program would have implications for our already strained staff resources.

CCC also administers the Intermediate Export Credit Guarantee Program (GSM-103), which guarantees financing for export sales under qualifying foreign bank letters of credit for which repayment terms are in excess of three years to ten years. GSM-103 has been designed to assist developing nations make the transition from concessional programs to commercial sales. Current legislative authority specifies a maximum level of credit guarantees -- $1 billion per year -- which can be made available during Fiscal Year 1989 and Fiscal Year 1990.

In fiscal year 1990, the third full year of operation for GSM-103, we sav dramatic increases in program utilization. CCC announced programs of approximately $497 million, primarily for wheat and feed grains. Sales

registrations totaled $425.5 million, a 45 percent increase over the previous year's levels. The program enabled the United States to maintain its presence in Morocco an important EC wheat market, expand U.S. wheat market share in Sri Lanka, and increase sales of U.S. wheat, rice, and feed grains to Jordan. We believe that current authorization levels are more than adequate to operate the program in the near term.

During Fiscal Year 1989, USDA initiated a number of major efforts to upgrade the administration of the GSM-102/103 's programs. For example, we substantially expanded our efforts in the area of foreign risk analysis. Last year we evaluated the credit worthiness of approximately 42 countries, utilizing information about current macroeconomic and financial conditions as well as expectations for the next 18 to 24 months. This effort is, of course, directed at avoiding unneccessary risk of payment defaults or loan reschedulings that could result in outlays for the CCC. This effort is continuing in the current Fiscal Year.

CCC has also moved to make a number of other management and regulatory improvements. A recent report on the operations of the GSM-102/103 programs issued by the Department's Office of the Inspector General (OIG) recommended several areas for improvement, and we moved quickly -- in some cases, even before the OIG report was issued -- to implement those suggestions.

We have moved quickly to follow OIG's recommendations that several program policies and requirements be clarified or strengthened. On the issue or product content, we have drafted and forwarded to OMB proposed amendments to the GSM regulations which make it clear that the basic policy of CCC is to require, unless otherwise announced, that one hundred percent of the agricultural content of a GSM-assisted sale be U.S. produced. We have also incorporated a certification requirement to that effect in the proposed

amendments to the program regulations. In addition, we have also explained, based on a legal opinion of our Office of General Counsel, that a GSM sale may contain some non-agricultural content so long as the product itself retains its essential identity as an agricultural commodity.

In its report, OIG also recommended that our rules be strengthened to insure that USDA had adequate access to the records of program participants to permit USDA to monitor program compliance. We have taken several steps to accommodate that concern. On October 27, 1989, even before OIG issued its report, CCC issued a program announcement, reminding exporters that:

> Failure of the exporter to establish and maintain documentation to support required certification of commodity origin pursuant to CCC's September 21, 1988 and February 15, 1989 Notices to Exporters could result in the nullification of the payment guarantee or in the exporter being held responsible for any payments made by CCC under the payment guarantee.

CCC also made it clear to exporters that any failure to comply with record keeping requirements could have other serious consequences as well. In CCC's December 7, 1989 Notice to Exporters, we said

> If documents are not made available to appropriate Departmental officials that adequately support the information reported to CCC, action may be taken to nullify the payment guarantee or hold the exporter responsible for any payments made by made by CCC under the payment guarantee. Failure to meet these requirements could result in suspension or debarment from participation in programs of the CCC.

We are also acting to strengthen our regulations on this issue. Our proposed amendment to 7 CFR Part 1493.14 makes it clear that a program participant not only has a duty to provide access to relevant records of CCC transactions but to carefully maintain those records of non-GSM transactions where that information is determined necessary to an investigation of possible GSM violations.

In response to OIG's recommendation that exporters be made more avare of the penalties that could result from the program violations, CCC has made it standard practice to include in all country program announcements a statement to the effect that program violations could potentially lead to criminal prosecution, civil action, and suspension and/or debarment from program participation. FAS is also working with the Office of General Counsel to reviev and revise the procedures followed by the CCC in the suspension and debarment process.

The OIG also made several recommendations regarding program management which have been implemented. OIG suggested that better guidelines be developed outlining the specific responsibilities of each FAS division involved in the GSM programs, and the process of analyzing that issue has begun by CCC's Assistant General Sales Manager. FAS's Compliance Reviev Staff has initiated a continuous program verification procedure, which will sample and check exporter records to assure programs compliance and identify possible program abuse.

Perhaps the most significant management change has been the institution of price monitoring and reviev system for the GSM programs, which vas implemented on December 14, 1989. This initiative addresses OIG's concern that the GSM sales at excessively high prices could be used in some instances, to generate excessive profits or for other abusive purposes. The price monitoring program will insure that GSM transactions prices are reasonably consistent with commercial market prices; those that appear to fall outside a reasonable range will be subject to FAS Compliance spot checks to determine whether there is a legitimate reason for the wide variance from othervise prevailing market price levels.

OIG also raised questions about the effects of two external factors on the policy and operations of the GSM programs. First, OIG questioned the policy of permitting exporters to obtain duty drawback based on exports made under the GSM programs. In response, FAS supported legislation, P.L. 101-220, which was signed into law on December 12, 1989, which placed certain limitations on the concurrent use of both duty drawback and the GSM programs, especially with regard to sales of vegetable oil. Our proposed regulation amendments will contain provisions implementing the provisions of that statute.

Second, OIG questioned whether franchiser/franchisee sales could legally qualify for participation in the GSM programs. FAS requested a legal opinion of the Office of General Counsel on this issue and was advised that such sales could be included in the programs. However, FAS is reviewing this issue from a policy perspective.

We believe that the products of the past year's efforts -- improved management, new safeguard procedures and clearer regulations -- will provide FAS and CCC some aid in facing the additional demands we foresee on the horizon. However, the increased workload resulting from the expansion of these programs has already strained present staff resources. For example, the average length of time required to process export requests has already increased from two weeks to almost five weeks. We expect that registrations for both GSM-102 and GSM-103 will increase again next year to new record levels. If demand for this program continues to grow as we think it will, there will inevitably need to be more staff resources allocated to insure proper management and oversight of these important programs.

EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) uses CCC commodities to make U.S. products more competitive in the world marketplace, to offset the adverse effects of unfair trade practices or subsidies, and to encourage our trading partners to negotiate seriously on agricultural trade reform.

Under the EEP, agricultural commodities owned by the CCC are made available as a bonus to U.S. exporters to expand sales of U.S. agricultural products into targeted markets.

An Export Enhancement Program was first implemented in May 1985 under the authority of the CCC Charter Act authority. the program was continued under provisions contained in the Food Security Act of 1985 which provided directions for the conduct of the program.

Since the EEP began, 105 initiatives have been announced for 65 countries. The program has facilitated the sale of over 79 million tons of commodities, including roughly 70 million tons of wheat and wheat flour (grain equivalent); 7.0 million tons of barley, 73,000 tons of semolina (grain equivalent), 256,000 tons of barley malt (grain equivalent), and 191,000 tons of rice.

In addition, bonuses have been paid with respect to 166,000 tons of frozen poultry, 446 million table eggs, 513,000 tons of vegetable oil, 319,000 tons of sorghum, 189,000 tons of poultry feed and about 70,000 dairy cattle exported. Sales, with respect to which bonuses have been paid totaled nearly $8.6 billion by the end of fiscal year 1989 and are nov more than $9.8 billion.

Through the end of fiscal year 1989, about $2.5 billion had been provided to U.S. exporters in bonuses under this program. For fiscal year 1990, up to $566 million in commodity certificates could be made available by the CCC as bonuses under this program. Assumptions for the Commodity Credit

Corporation included in the President's Budget for the 1991 provides for up to $900 million of commodity certificates to made available as EEP bonus avards.

The Department's OIG audited the program and cited a number of needed improvements in a report issued this past fall. In response, we have made some important changes. We have addressed our auditors' concerns about bonus levels, accountability, price calculations, and procedures.

I would like to highlight some of the more significant changes which we have implemented over the past year.

The OIG report called for better program evaluation and analysis to determine the export enhancement program's overall effectiveness and written criteria to define and describe requirements for program eligibility.

USDA carried out a review of the Export Enhancement Program which was begun during the final phases of the OIG audit and completed in May 1989. The USDA study was conducted by FAS in conjunction with the Department's Economic Research Service (ERS) Economic Analysis Staff and the Office of Budget and Program Analysis. The study focused particularly on the budget effects and additionality aspect of the program, with emphasis on wheat sales. In December 1989, ERS published a report based on the study. The report indicated that the EEP raised U.S. wheat export volume and revenue and placed competitive pressure on the European Community to either spend more for subsidies or lose export volume. The conclusion was that the principal objectives of the EEP have largely been met. Although lower loan rates and a depreciating dollar have made the major contribution, the EEP has both increased U.S. farm exports and been instrumental in bringing U.S. trading partners to the negotiating table in the GATT.

OIG also cited the need for written policies and procedures for all aspects of the EEP.

The President's Economic Policy Council established written criteria for EEP operations at the outset of the program. These criteria for the selection of commodities and countries of participation, have now been revised and were published in the Federal Register on November 27, 1989. The new criteria take into account the following four factors: the effects of the EEP on trade policy negotiations, on U.S. agricultural exports, and on other exporting nations that do not subsidize agricultural production and exports, and the subsidy requirements of EEP sales compared to expected benefits.

FAS now has developed written policies and procedures for all significant aspects of the EEP. In addition, FAS recently drafted proposed regulations dealing with the operation of the EEP.

OIG questioned whether the Food Security Act of 1985 allows bonus values to include freight costs for overseas shipments and called on FAS to conduct a cost-benefit analysis to determine whether the market share gains achieved by including freight costs in EEP bonus amounts will continue after the program is discontinued and the U.S. exporter is once again at a competitive disadvantage with respect to transportation costs.

The Food Security Act of 1985 specifies that the term subsidy includes distribution costs. From an economic standpoint, distribution clearly includes transportation. USDA's Office of the General Counsel has confirmed that CCC has legal authority to include freight costs to destinations in its calculation of bonuses payable under the EEP. Given its primary focus on trade policy objectives, the EEP may be considered a temporary program. Because of that fact and the new criteria for operating the EEP, FAS and OIG agreed that FAS does not need to conduct a cost-benefit analysis to determine the long-term effects of the application of shipping cost incentives.

OIG questioned FAS bonus value calculations and called for written policies and procedures for world price determinations and bonus calculations, documentation of adjustments made to price quotes from agricultural attaches and other sources, and re-evaluation of the incidental costs alloved.

FAS has developed written policies and guidelines to calculate bonuses. The guidelines call for documenting any adjustments made to price quotes and re-evaluating incidental costs periodically.

OIG cited inadequate record-keeping by some exporters which made it difficult to access information needed to analyze the financial impact EEP participation has on exporters. OIG called for clarifying the language in the "Announcement for Acquiring a CCC Bonus Under the Export Enhancement Program."

On December 8, 1989, the EEP Announcements vere amended to clarify the language of the provisions concerning audit of records and access to the exporter's premises.

OIG raised concerns about the practice of "bid assistance" and called for steps to ensure program integrity.

FAS agrees that bid assistance should be minimized. Communication vith buyers should be limited to a discussion of market conditions and generally not touch on specifics of price. FAS has evaluated its bid assistance procedures to ensure that every possible precaution is taken to prevent the acceptance of a sale price lover than a buyer would have offered in the absence of a discussions with FAS personnel.

OIG called for improvement in the overall management of dairy cattle exports under the EEP. OIG called into question bonus calculations, cited the need to assist exporters in becoming avare of import restrictions, and asked FAS to determine if performance security requirements should be reduced so that smaller exporters could participate in the program.

As in the past, bonus levels for all commodities are revieved daily to ensure that they reflect current market conditions and realistic costs. FAS has documented hov it determines bonus levels and periodically re-evaluates incidental costs alloved in bonus calculations.

FAS provides exporters vith information on foreign countries' lavs, trade restrictions and import requirements through its netvork of agricultural attaches and trade officers in target countries and its commodity specialists and policy staff in Vashington, DC. FAS had already taken steps prior to the OIG audit to ensure that small exporters are able to participate in the EEP. This vas done by reducing the amount of the performance security that must be furnished by the exporter, if the exporter agrees to request payment of the bonus after delivery, rather than shipment of the commodity.

The OIG audit contended that FAS did not verify that exporters had valid sales contracts under the dairy cattle EEP.

Beginning on July 29, 1988, CCC required that exporters supply a copy of the signed sales contract or eligible buyer sales certification statement at the time an offer was made for an export of dairy cattle under the EEP.

On December 8, 1989, FAS amended the EEP Announcements to further clarify the definition of Sales Contract by including a description of the minimum sales contract requirements.

OIG called for more rigid controls to ensure that bonus payments are made only for commodities specified in agreements.

FAS has tightened controls to assure that bonus payments are made only for commodities specified in the agreement between CCC and the exporter. If any discrepancies are found between agreement specifications and the export shipping documents, bonus payments are withheld pending resolution of the discrepancy.

OIG called for all amendments to be documented. FAS established procedures to provide the CCC's Kansas City Commodity Office with copies of commodity specifications under the agreement. In conjunction with the more rigid tracking to ensure that commodities meet agreement specifications, CCC also has established procedures to ensure that any amendments to agreements under the EEP are well documented. FAS has developed and implemented a computer-based logging system to document and track amendments for all commodities. This electronic system, together with paper and telephone backup systems, is being used both in Washington and in the Kansas City Commodity Office.

Overall, the EEP continues to be an important instrument for developing, expanding or maintaining the U.S. share of markets where unfair trade practices prevail and for achieving export trade objectives.

TARGETED EXPORT ASSISTANCE

The Targeted Export Assistance (TEA) program was mandated by Section 1124 of the Food Security Act of 1985. That statute directs the Secretary of Agriculture to use CCC assets through fiscal year 1990 for export activities offset the adverse effects on the export of U.S. agricultural commodities and products of unfair trade practices by foreign countries.

The legislation provides that support may be in the form of either cash or commodities. To date, USDA has used CCC commodity certificates to reimburse participants for part of their foreign market promotion expenses. The legislation requires that export assistance be provided on a priority basis for agricultural commodities and products which have received a favorable decision under section 301 of the Trade Act of 1974, or those whose exports have been adversely affected by retaliatory actions related to a favorable decision under section 301 of the Trade Act of 1974.

Section 301 of the Trade Act of 1974 covers foreign unfair trade practices that violate U.S. rights under a trade agreement, such as the General Agreement on Tariffs and Trade (GATT), or those which unjustifiably restrict U.S. commerce.

Under the TEA program, FAS works with nonprofit agricultural trade associations and U.S. private firms to promote U.S. agricultural commodities and products through cooperative industry-government efforts in foreign markets.

USDA announced allocations totaling $200 million in fiscal 1989 to conduct promotional activities for 47 commodity programs in more than 100 foreign markets. The budget for 1990 continues the TEA program at the $200-million level.

The TEA program has been used for a wide range of innovative promotion projects for many U.S. commodities in almost every region of the world. Commodities have included, for example, canned fruits, frozen foods, pasta, wool, berries, hay, leather, and grains to name a few.

Results of TEA promotional efforts have been substantial and, in many cases, remarkably rapid, given the typically long-term nature of market promotion work. The TEA program also has enabled us to involve many more organizations, including private firms, in our market development efforts.

Over the past 18 months we have taken a number of steps to improve TEA program management including program revisions dealing with evaluation and branded promotion, planning and evaluation workshops for participants, the publication of regulations covering program participation criteria and conflict of interest, and the preparation of formal regulations covering all other aspects of program administration.

The General Accounting Office has suggested that the TEA Program should be combined with the Cooperator Market Development Program for the sake of efficient program administration. Before taking this step, we need to consider whether the needs of the different types of promotional activities and commodities assisted by the TEA and Cooperator Programs would be best served by such a merger. The Cooperator Program administrative framework may not be an optimal approach to managing programs for the types of consumer-ready and processed products which predominate in the TEA Program.

Our goal in each of the programs I have discussed today--credit guarantees, EEP, and TEA--is to keep the country's transition to a market-oriented agricultural policy on course, without abandoning pressure on our trading partners to move in the same direction, and within the fiscal constraints under which all Federal programs must operate.

That completes my testimony, Mr. Chairman. I would be happy to answer any questions you or the members of the Subcommittee may have.

Senator BOREN. Now if I could, I will call up a very excellent panel, proceeding in alphabetical order and order of importance of States—it is fortunate that it was alphabetical, so I won't be accused of bias here—Mr. William R. Allen, Jr., of Union Equity of Enid, Oklahoma; Mr. Wayne Andersen, executive vice president, International Banking, of National Bank for Cooperatives in Denver; and Mr. Alex Curtis, already referred to very ably by his home State Senator, president of the Farmers Grain Terminal at Greenville, Mississippi.

We are very glad to have all of you here. Let me say that we will receive your full statements for the record. You have heard Mr. Anderson's testimony, and you have heard the discussion that has gone on here among members.

I think what might be most useful is, where you can, to summarize any statements you'd like to make, and we will receive them all for the record, and then to give us the highlights of your comments and perhaps something you have heard here already this afternoon might spur you to additional comments.

We are really interested in having your thoughts about how we can make constructive improvements in the program that we have now, and we are very interested in hearing your personal experience with these tools and finding ways that we can really serve you better in terms of getting these exports out.

Mr. Allen, we would certainly be glad to begin with you, and we'll just go right down the line and then we'll ask questions of all three of you.

STATEMENT OF WILLIAM R. ALLEN, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNION EQUITY CO-OPERATIVE EXCHANGE, ENID, OK

Mr. ALLEN. Thank you, Mr. Chairman and members of the Senate Agriculture Subcommittee.

INTRODUCTION

We do appreciate this opportunity to appear before you today and would like to summarize our statement and ask that you incorporate the entire written statement in the record, please.

We would like to compliment you and offer our full support, Mr. Chairman, in your opening remarks at this particular hearing. As a regional grain marketing cooperative owned by farmers in 10 States between South Dakota and Texas and headquartered at Enid, Oklahoma, we do sincerely appreciate your leadership role and that of your colleagues in drafting the most effective 1985 farm bill and your active leadership and support for the Export Enhancement Program as well as the other Federal export programs.

THE EXPORT ENHANCEMENT PROGRAM HAS EFFECTIVELY HELPED U.S. WHEAT PRODUCERS REGAIN MARKET SHARE

The Export Enhancement Program has effectively helped U.S. wheat producers regain market share. As a case in point, 2 years ago, Hard Red Winter wheat exports more than doubled while incidentally in that same year, complaints regarding grain quality, wheat quality, if you will, were reduced by more than 50 percent.

When we did become extremely competitive at the world marketplace on behalf of the U.S. farmer, we did recover market share.

Yes, the Export Enhancement Program is an effective GATT tool, as was indicated here earlier this afternoon, but we believe its most important function is to help the U.S. producer compete each day at the world marketplace.

Our international competitors' complaints of the Export Enhancement Program—and we understand they have been numerous in recent years in this great city—those competitors of ours who come here lobbying, if you will, against the Export Enhancement Program, we believe, is an excellent indication of its progress, of its effectiveness. It has recovered market share for the U.S. farmer.

A myth or misunderstanding, if I might, that has been at times mentioned in the media—and perhaps others have misunderstood, Mr. Chairman—is that the Export Enhancement Program benefits only the exporter. Conversely, I would like to say, and thankfully, it is the U.S. farmer that is most helped by the Export Enhancement Program, and anything that you and your colleagues can help us do to spread that education or that fact would be beneficial, we think, because it is misunderstood.

The margin of the subsidy, whether it is $12 a ton—as we are approximately out of the marketplace today, of the world market on wheat, and it has been as high as $45 a ton in recent years—but as that spread of difference is provided by the government in its resolve to stand behind the U.S. farmer throughout the world marketplaces, that money is paid to the U.S. farmer at the marketplace through the higher market prices, if you will, and that seems to be really misunderstood.

We need the Export Enhancement Program only as long as we are not otherwise competitive. There is another misunderstanding, I think. Some, out of concern, have said things like: We really don't need EEP any longer; we didn't intend for it to last so long. And I think they are right. I don't think any of us want it forever, and I don't think many of us intended for it to last perhaps this long. But I think it is so important that we recognize that as a nation, we must have the resolve to stand behind and undergird the U.S. farmer so he and she are effectively competitive at each day's marketplace. And when today, February 6, 1990, we are still some $12 a ton uncompetitive, we argue that we need EEP today.

When we no longer need it, let's put it in the gun rack. Let's don't kill it, cancel it or bury it. Let's leave it in the gun rack so that those foreign competitors will see it. They know that we know how to use it, and we suggest that we have it available as long as needed. If GATT removes us from that necessity, then we applaud that, and when we reach that more utopian, free trade environment, we work toward that day. But until then, for gosh sake, let's not jeopardize one of the best tools that the U.S. farmer has to be competitive. So we hope you will help us in that endeavor, as you have taken the leadership role in the past.

WE MUST HAVE ADEQUATE PRODUCTION TO SUPPORT OUR GROWING DEMAND

We must have adequate production to support our growing demand. We took too much, way too much, land out of production—I trust we would agree—hindsight is 20/20—after we took 27½ percent of acreage of wheat, for example, too many years, and then Mother Nature in the last couple years decided to take her set-aside, we have ended up with much too short a carryover. This year, if we carry some 400–500 million bushels of wheat over come May 31, that is less than half of domestic annual consumption, and when we are looked upon by much of the world to provide a healthy share of world consumption of wheat and other grains, we think that is taking too much for granted. We would urge you to help us look at not only the current set-aside levels, which have brought more land back into production, but we urge you to study the current status of the CRP. I say this because I think, sir, it is directly related to the export programs. We must have product if we are to support that growing demand.

There is excitement in what is happening in the new strides in freedom and democracy, whether it is in East Germany or Poland or Russia, and those efforts will provide more opportunity, and we must have the product, we must have the land in production. We think 34 million acres out, we are still shooting for 40–45 million—some, we read recently, are shooting for 55 million, or urging that we take 55 million; we ask you to please consider that ample land is out, and we must have strong production. We must have strong production with demand if we are to have an overall strong agriculture. The United States must be not only perceived but believed to be a continuously reliable supplier of competitively priced wheat and other grains and goods, foodstuffs, in the world marketplace.

We have shot ourselves in the foot too many times—I don't say that to really criticize, but to analyze, so that hopefully we won't cause those errors to recur.

AMERICANS ARE GREATLY ENHANCED FROM A PRODUCTIVE AND COMPETITIVE U.S. AGRICULTURE INDUSTRY

Our national economy in total and all 250 million of us Americans are greatly enhanced from a productive and competitive U.S. agriculture industry. Such posture does enable us Americans to be the envy of much of the world, I trust we would agree, with such a luxurious choice of good quality food, and at a relatively low, low percentage of our disposable income. Many times I think we take that for granted. We all prosper from a healthy agriculture.

CONCLUSION

Mr. Chairman and members of this subcommittee, we respectfully urge your continued leadership and support of not only export enhancement but the other government export programs to help the U.S. producer protect the international market share.

We look forward to working with you in the future in any way we can.

Thank you.

Senator BOREN. Thank you very much, Bill.

I think you make a very good point in terms of keeping sufficient levels of production in this country. One of the things we realize is it is the infrastructure that helps also, along with very efficient production by our farmers, the infrastructure in place which enables us to keep our costs down, and that if we get ourselves below a certain scale, we are not going to be able to maintain this infrastructure which is very, very important to the ability of our farmers to compete with other countries, where the lack of infrastructure really hampers that farmer who is doing pretty well at the farm gate but is not doing well once you get to price their product out to the market. So that is an important point.

And the point about no unilateral disarmament, so to speak, as long as we are facing the massive kinds of subsidies that we have had testimony about, in the $10 billion range from the European Community today.

Let me ask you just quickly, do you see the need for increasing the GSM-102 guarantee from $5 billion to $7 billion?

Mr. ALLEN. Yes, sir, we would support that because I think not only of anticipated growth otherwise, but with the exciting events of the recent 60-90 days, which could open up not only new opportunities, but new needs, new demands for expanded exports.

Senator BOREN. One of the things that I think we have to really think about is that we are in a whole new world environment; we have exerted the influence of the United States in many ways in the past because of our military strength; we have been there to protect not only ourselves, but NATO, the Japanese and many others from the threat of Soviet aggression. Now that that is easing, these countries are not going to be so willing to follow our lead if they no longer feel the need for our military protection. In some ways, our influence in the world is tied to the influence of the Soviet Union; as it declines, and the perceived threat from it declines, we have to exert our influence in new ways, and certainly one of the things we must do is rebuild our economic strength.

We have lost a large share of our world markets percentage-wise and the industrial sector; we have started recouping with export enhancement tools, our share in the agriculture sector and the volume of agricultural exports, but I think it is very important, particularly as we look at Eastern Europe, that we regard this as a period of opportunity for rebuilding both in the agricultural and in the industrial sector as well a share of world markets that we used to have.

So I think we don't want to hold ourselves back from taking advantage of an opportunity that will help people and will build lasting economic bonds between those economies that are going to grow and develop and our own.

What about the regulatory environment in terms of use of the Export Enhancement Program—are we bogging ourselves down in terms of the time that it takes to make the calculations to determine whether or not a project or a sale is going to qualify for EEP? And again, I'm not asking you to be critical in the negative sense, but I think those from the Service would like to hear any suggestions we might have for streamlining the process or areas where you feel it might be bogging us down and causing us sometimes to miss opportunities because we have moved too slowly.

Mr. ALLEN. Well, sir, I appreciate that question. I would say we helped with our membership and participation in the North American Export Grain Group. A few months ago, that group prepared a list of suggested changes administratively within the internal operation of the program. I do not have any of those with me at this time. I would say we support that, and we support the acknowledgment by Bud Anderson and his staff—and I think Mr. Yeutter has made this statement—that in recent months they have been looking at the program and ways of improving it. And I don't have any criticism other than we salute that gesture. I think we do that in our homes and in our workplaces when there is opportunity to improve, and we need to improve the effectiveness and productivity.

Senator BOREN. So those recommendations are there. I would appreciate it if those are appropriate to be made public if you might insert them for us later in the record in terms of those suggestions.

Mr. Anderson, I gather those have been received by the Service, and you are giving consideration to those suggestions for simplifying and streamlining the process, you might say.

Mr. ANDERSON. Yes.

Senator BOREN. Thank you very much.

[The prepared statement of Mr. Allen and attached letter, prepared statement of Steven A. McCoy, North American Export Grain Association Incorporated follow:]

STATEMENT OF WILLIAM R. ALLEN, JR., PRESIDENT
AND CHIEF EXECUTIVE OFFICER, UNION EQUITY COOPERATIVE EXCHANGE

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present testimony at this hearing on U.S. export and market development programs. We are very much aware of the role played by you, Mr. Chairman, and others on the Senate Agriculture Committee in drafting the 1985 farm legislation, in particular your specific involvement in crafting the Export Enhancement Program (EEP) provision, which we'll address later in our testimony.

My comments today are based on observations and experiences related to my work as president and chief executive officer of Union Equity, a regional grain marketing cooperative headquartered in Enid, OK. Union Equity has more than 480 local cooperative member-owners located in a 10-state area stretching from Texas to South Dakota and from Missouri to Colorado. With two export elevators, at Houston and Galveston, Union Equity in 1988 loaded more than 300 million bushels of grain, primarily Hard Red Winter wheat and milo, for shipment to 28 nations around the world. In 1989, that volume was more than 220 million bushels.

It's no secret that the vitality of the American farm economy depends in large measure on the level of export sales of U.S. agricultural commodities. And certainly the record is clear that 1985 Farm Act policies have enabled U.S. farmers to be more competitive in the world marketplace and to recapture market share lost to other nations. The economic ripple effect coming from that rebound in export sales has had a substantial and beneficial impact on the farm economy in our trade territory, even though Mother Nature hasn't always cooperated as fully as we would like.

In particular, our first-hand experience with the workings of the Export Enhancement Program (EEP) as well as the Export Credit Sales Program (GSM) convinces us that these programs have been and will continue to be extremely important to the ability of national farm programs to enhance agricultural income by maintaining and expanding export market share.

U.S. agriculture is geared to produce. With the people, natural resources, technology and infrastructure we have in U.S. agriculture, the industry can produce with great efficiency. But no industry can maintain large, efficient production over time without demand. Effective demand is the fuel that drives the agricultural engine. The export credit programs and the Export Enhancement Program both contribute in major ways to that demand. As a result, they represent investments in maintaining a strong agricultural industry---a healthy industry whose productivity and efficiency are important not only to those overseas nations which use these programs but also to U.S. consumers who benefit from abundant and reasonably priced food and fiber supplies, and to our national economy as a whole.

In short, we strongly support the reauthorization of these programs and urge that they be provided adequate funding that will enable them to achieve their respective objectives.

To elaborate on those views, we would note the following:

In today's marketplace, the availability of credit for financing the purchase of agricultural commodities and value-added products is essential. The GSM short and intermediate-term credit guarantee programs have clearly demonstrated their value in facilitating the sale of such goods. Further, the usage trend of these programs in recent years emphasizes their growing importance. Actual sales registrations under GSM-102 went from $2.6 billion in Fiscal 1987 to $4.1 billion in 1988 and $4.8 billion in 1989. Figures for the current Fiscal Year show available funds have been almost totally allocated, with heavy use of those allocations to date. The story for GSM-103 is much the same--with sales registrations totaling $250 million in 1987, $363 million in '88 and $426 million in '89.

In addition to the story told by these brief statistics, recent and current world developments strongly suggest the value of these programs and the need for them will continue to grow. Our nation has a long record of assisting developing countries around the world. In addition, we now find ourselves looking for effective ways to help countries struggling to manage major changes in their economic and social structures. The conclusion we draw from (1) the increasing demand for GSM credit guarantees by traditional users and (2) the prospect more countries will want to use these programs, is that there will be pressures for additional funding beyond the current ceilings of $5 billion for GSM-102 and $500 million for GSM-103. We'll comment further on this issue generally in a moment.

With respect to the EEP, Union Equity has consistently supported this program as a means of enabling U.S. farmers to compete in the world marketplace with the subsidized exports of other nations. Its impact has been especially large on export sales of wheat, with approximately 80 percent of EEP expenditures applying to wheat sales. Some two-thirds to three-fourths of U.S. export sales of wheat in recent years have come under the EEP.

This program has sent a clear message the United States is committed to being a major player in the world grain marketplace and that our government will not sit idly by while U.S. farmers have markets taken away by subsidized competition from abroad.

We frankly wish there were no need for the Export Enhancement Program. If all things were reasonably equal in the world grain marketplace, we're confident U.S. producers could compete effectively for their fair share. But until trade negotiations result in a level playing field, we think it's important that an appropriately used and adequately funded EEP be maintained. The same holds true for GSM export credit programs. Should GATT negotiations lead to an agreement relative to agriculture, then Congress can revisit these and other farm program policies as necessary.

While we strongly support the GSM programs and the EEP, we also would like to respond to this Subcommittee's call for suggestions on how they could be improved. In doing so, we'd like

to make one broad suggestion and then follow up with what could be called some day-to-day, nuts-and-bolts considerations.

In a fast-changing environment--one in which these export and market development programs are playing an increasingly important role, there's a corresponding need for our nation to carefully consider what its food and trade policy should be. If more funding for GSM credit programs were available, for example, on what basis would additional allocations be made? Given the developments in Eastern Europe, what should our trade policy be there and what role can these programs play in that. How about South America and other developing nations already facing severe debt problems? Do we need to re-examine blended credit as a possible tool? And what steps are most appropriate for two of our largest customers--the Soviet Union and the Peoples Republic of China?

The questions are easily posed; finding the answers is much more difficult. Nevertheless, an effort to do so is crucial to making sure the pieces of this policy puzzle fit together and that these programs' effective continuance is maintained.

Insofar as EEP is concerned, Union Equity is an active member of the North American Export Grain Association and supports the suggestions for improving that program's administration, as set forth in a paper submitted by NAEGA a number of months ago.

As noted earlier, we've also seen an increasing demand from overseas buyers to use GSM credit programs. The press of this growing demand and usage no doubt has meant more work for those USDA offices involved in administering the programs. Accordingly, and to no one's surprise, delays in handling the necessary paperwork have become more frequent and longer. We say this not to be critical but to suggest the likely need to fund additional resources for program administration.

We also would note that participation in the GSM credit programs by U.S. offices of foreign banks has posed some problems from time to time. For example, some of these offices are fairly new and/or small operations and finding out where they are located and how to contact them isn't always easy. Also, these banks are not always subject to the same regulations and practices that govern the performance of U.S. banks. Banking isn't our area of expertise but Union Equity as an exporter obviously has an interest in the issue. Our operations are affected by the performance of the banks we deal with. We don't think it's unreasonable for U.S. branches of foreign banks to be subject to certain registration requirements in order to participate in federal credit guarantee programs. Among other things, we also think such institutions, which are not subject to the same regulations governing their operations as U.S. banks, should be required to post some form of indemnity agreement to assure their businesslike performance.

Again, we thank this Subcommittee for the chance to testify on issues important to Union Equity and the farmers we represent in the marketplace.

Union Equity Co-Operative Exchange
2300 N. 10th Box 3408 Enid, Oklahoma 73702 (405) 233-5100

WILLIAM R. ALLEN, JR.
President
and
Chief Executive Officer

March 12, 1990

The Honorable David Boren
U.S. Senate
453 Russell Senate Office Building
Washington, DC 20510

Dear Senator Boren,

Enclosed is a copy of information I referred to during my testimony at your subcommittee hearing last month on the Export Enhancement Program and export credit guarantee programs. You had asked that we provide you a copy.

Since we also were returning a transcript of my testimony to Christine Sarcone, the chief clerk of the Senate Committee on Agriculture, Nutrition & Forestry, we included a copy of the information in that mailing so that it would be available for the hearing record. The February hearing transcript included your comments requesting that we submit that information for the record.

Sincerely,

Bill

William R. Allen, Jr.
President & Chief Executive Office

cc: Christine Sarcone

North American Export Grain
Association Incorporated

Statement of
Steven A. McCoy, President
North American Export Grain Association
before the House Subcommittee on
Wheat, Soybeans, and Feed Grains
April 27, 1989

It is a pleasure to appear before you today as spokesman for the North American Export Grain Association (NAEGA), the trade association which represents the interests of the Nation's grain and oilseeds exporting companies and cooperatives.

Your hearing today is timely and merited. It is appropriate that the objectives and current operating procedures of the export enhancement program (EEP) be re-evaluated, both in light of its record in recent years and for its consistency with today's political and economic circumstances and the prevailing international market environment.

Many things have changed since May 1985, when the export enhancement program was first announced by the Reagan Administration at the strong urging of the 99th Congress. Between that time and this stand many significant developments:

(1) the successful and as yet unfinished evolution of U.S. farm policy in the direction of greater competitiveness initiated by the 1985 farm act;

(2) the recent progress toward international agricultural policy reform in the context of the Punte del Este

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round of the GATT negotiations;

(3) a reversal of the strong dollar, which inhibited U.S. agricultural competitiveness throughout much of the early 1980's;

(4) the re-emergence of the Soviet Union as a significant factor in U.S. markets;

(5) the 1988 drought; and

(6) the beginnings of early debate on future U.S. agricultural and trade policy looking toward the 1990 farm bill.

The prospects for U.S. agriculture certainly appear much brighter today than they did only a few years ago. This Committee deserves substantial credit for the improvement in agriculture's fortunes.

The policies ushered in by the 1985 farm act have had their intended effect in restoring competitiveness to U.S. agriculture through a gradual reduction in loan rates. The export enhancement program too has played a role in the evolution of U.S. agriculture toward greater competitiveness by maintaining U.S. market share during the transition to lower prices; by contributing to a drawdown in stocks overhanging the market; and by maintaining pressure on the European Community (EC) and others to reduce export subsidies and other trade and market distorting practices that run counter to the welfare of U.S. agriculture and the world's consumers of grains and oilseeds.

Of course, the use of the program has not been without cost. It has, for example, massively increased the role and intervention of government in the grain marketing process to such a degree that, today, the government rather than the market is making fundamental decisions regarding what is sold, to whom, at what price, for what delivery period -- even down to the particular class of wheat sold and the designation of the coast of shipment. This is a consequence which we believe was not intended by the authors of these programs and which poses a serious threat to the current and future integrity and proper functioning of our agricultural marketing system. It underscores the danger of reliance on government export subsidies to achieve any purpose beyond a strictly limited short-term goal. It also begs the question as to whether the perceived benefits of the program outweigh the costs.

We will not, perhaps, decide that question today. It is, however, a question that should always be at the forefront of our thinking. If the answer to that question is no, steps should be taken to eliminate or shelve the program immediately. If, on the other hand, the program is to be maintained then it is appropriate to strictly define its purpose, identify its specific applications and uses, make it predictable and consistent -- in short, make EEP an adjunct to the marketplace and not a threat to the market system itself.

We have touched on some of the past stated and unstated objectives of the EEP which include:

(1) enhancing U.S. competitiveness;

(2) maintaining or expanding U.S. market share;

(3) disposing of surpluses;

(4) offsetting EC export subsidies; and

(5) demonstrating U.S. resolve to achieve greater progress toward international agricultural trade reform.

Regarding all of the above, it is difficult to isolate the specific contribution of EEP. As we have already mentioned, many other critical developments have taken place since 1985 which have had as great, and in some cases much greater influence on our ability to meet the objectives above.

In our view, the only legitimate future purposes to be served by the EEP program is in offsetting the EC subsidies (point 4) and serving U.S. negotiating purposes in the context of the GATT round (point 5). The other objectives of the program have either been met or are better achieved through the medium of adjustments to current U.S. domestic farm policy. This is particularly true with respect to basic conditions affecting commodity prices and production.

The goal of maintaining U.S. competitiveness is best achieved by maintaining U.S. loan rates at or below market-clearing levels. Moreover, acreage reduction programs and producer target prices must be determined with full appreciation given to the impact of such factors on the competitiveness of U.S. commodities in international commerce. The entire U.S. agricultural production

and marketing system should be made price responsive from top to bottom. In the current context, this means reducing acreage set-asides for major crops; realigning target prices to facilitate efficient production; and restoring flexibility to farmers so they can produce and market commodities demanded by the market.

If EEP is to be maintained to further U.S. efforts to bring about international trade policy reform, the program should be redesigned to lessen the adverse impact of government in the grain marketing process. Currently, the program acts as a deterrent rather than as a stimulant to U.S. export sales. Foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases.

The decision-making process affecting EEP is inherently unstable -- for one thing, it depends upon a consensual inter-agency process that, among its other considerations, deliberates on foreign policy objectives of the United States that are subject to change. Not all buyers are eligible to receive EEP; and among those countries who are eligible many are unable to purchase what they want, when they want, and in the quantities they desire. The U.S. government, not the market, currently determines price and allocation of wheat supplies. That heavy handed government role -- and the instability it inevitably brings -- is simply compounded and magnified in conditions of short supply such as we have experienced in the past year.

A greater element of stability, consistency, and predictability is necessary in the EEP program, if it is not to

place an unreasonable burden on grain markets. Greater transparency in the decision-making process would result in improvement in the program.

This condition could indeed be met if, for example, USDA were to limit its role to the simple determination of a subsidy (if any) to a given country or group of countries, leaving all other aspects of marketing to the buyers and sellers. This step would, on its own, go a long way toward restoring market orientation to the program, while eliminating unnecessary government involvement in market transactions.

Lessening the inroads of conflicting government agendas would also add an element of greater predictability. Leadership with regard to the program should be more clearly defined in the hands of the Department of Agriculture, thus diminishing the impact of other factors, particularly foreign policy considerations in the design and implementation of program decisions.

NAEGA is prepared to offer the Committee specific recommendations concerning needed improvements in the EEP program management. We will, of course, be happy to share our views with you as you require.

Regarding the utility of EEP as a tool in U.S. GATT negotiations, we have Secretary Yeutter's strong assurance. On that basis alone, NAEGA is prepared to support maintenance of the program, subject to modifications as have been herein recommended. We do so despite the export grain community's longstanding philosophical opposition to export subsidies of any kind.

We reaffirm our concerns regarding the dangers implicit in adopting an export subsidy regime as anything other than a very limited short-term undertaking. As a longer-term measure, export subsidies are not a proper substitute for appropriate market-oriented domestic farm policies. EEP must be viewed -- as it was initially -- only as a temporary measure.

We urge the Congress not to entertain the notion that EEP releases us from the obligation to fine tune U.S. agricultural competitiveness through the medium of domestic farm programs. We are reassured by the progress made in the 1985 farm act and commend your diligence in regard to the issue of U.S. competitiveness. We urge you to stay the course of policy contained in the 1985 farm act, making changes this year and next, as recommended elsewhere in this testimony, as you approach the task of the 1990 legislation.

North American Export Grain
Association Incorporated

THE EXPORT ENHANCEMENT PROGRAM (EEP): A PROPOSAL FOR CHANGE

Recommendations of the North American Export Grain Association

May 1989

Introduction

In testimony presented before the House Subcommittee on Wheat, Soybeans, and Feed Grains on April 27, 1989 (see attached), the North American Export Grain Association (NAEGA) has recommended "redesign" of the current export enhancement program (EEP) to "lessen the adverse impact of government in the grain marketing process".

The EEP currently "acts as a deterrent rather than as a stimulant to export sales", the testimony states: "foreign grain customers look to the U.S. government rather than to the marketplace to make basic decisions regarding purchases". The testimony notes that "a greater element of stability, consistency and predictability is necessary in the EEP program, if it is not place an unreasonable burden on grain markets". It also notes that "greater transparency in the decision-making process would result in improvement in the program".

The following information is provided as additional to the views expressed in NAEGA's April 27 testimony. The North American Export Grain Association (NAEGA) represents the interests of U.S. grain and oilseeds exporting companies and cooperatives.

The Current System

Currently, USDA -- either internally, or, more often in negotiation directly with a foreign buyer (usually a government) -- determines the terms of sale of commodities sold under the export enhancement program (EEP) down to specifics including shipment period; coast of shipment; class and grade of grain; and, in many cases, price. Once these initial determinations are made, the buyer invites exporters to bid for the business.

USDA calculates the bonus it believes is needed to buy-down the price of the commodity to the price offered by the EC for the commodity in the market in question. An exporter or exporters offering to sell within the bonus range may be granted a bonus and thereby the business.

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However, the process is not automatic. Prices and acceptable bonus levels vary from day to day; and from period to period. USDA, by exercising total discretion with respect to such sales, may reject or accept on any given day business offered at terms better or worse than those offered on the previous day or day following.

There is an absence of consistency and predictability in the program.

The Current Problems

The negotiation of contract terms and the setting of bonus levels by USDA takes away from the exporter the ability to rearrange domestic positions to benefit from the most efficient and advantageous terms; and prevents competitively placed producers from participating in the sale to the extent that they would under free market conditions.

By tightly limiting the shipment, the present system prevents the buyer from making any substantial forward purchases. EEP initiatives are offered piecemeal. A buyer who may be disposed to buying substantial quantities of grains in predictable conditions is precluded from that option because he cannot predict when the next initiative will take place. The lack of consistency and predictability in the program creates frustration for both buyer and exporter, results in charges of buyer "discrimination" and, in the long term, will tend to drive our best volume customers to more predictable origins.

Indeed, this may already have happened. Producer, buyer and exporter all fail to benefit from the program as Congress intended. Significant sales and, hence, purchases from producers go unmade.

A Partial Solution

There is no perfect "market-oriented" solution to problems of this nature created by a targeted export subsidy program which, by its very nature, impedes the normal function of markets. Nevertheless, certain improvements in the current system could be made which would restore to a greater extent the operation of the free market to the benefit of the program and affected parties, including exporters and producers.

NAEGA has reviewed some possible solutions. Among these, we recommend the following:

(1) NEGOTIATIONS SHOULD BE DONE DIRECTLY BETWEEN BUYER AND SELLER, ELIMINATING THE GOVERNMENT ROLE IN DETERMINING PRICE, SHIPMENT PERIOD, COAST OF SHIPMENT, CLASS, AND GRADE OF GRAIN, AND OTHER CONDITIONS OF SALE.

(2) THESE NEGOTIATIONS SHOULD PERMIT THE CONTRACTING FOR: (a) ANY CLASS OR CLASSES OF GRAIN; AND (b) SHIPMENT FROM ANY COAST OR COASTS.

(3) CLASSES AND GRADES OF GRAIN AND COASTS OF SHIPMENT SHOULD, AS IN THE FREE MARKET, BE SWITCHABLE AT ANY TIME PRIOR TO SHIPMENT BY PRIOR AGREEMENT OF BUYER AND SELLER.

(4) THE SAME BONUS SHOULD APPLY TO ALL CLASSES OF WHEAT (OTHER THAN DURUM) FROM SHIPMENT FROM ALL COASTS.

IF NECESSARY, AN "ADDITIVE BONUS", SUCH AS THAT THE EC NOW EMPLOYS, COULD ALSO BE GRANTED AND, IF GRANTED, PUBLICALLY ANNOUNCED, TO COUNTER PARTICULARLY AGGRESSIVE SUBSIDIES APPLIED TO EXPORTS OF OTHER ORIGINS OF A GIVEN COUNTRY.

(5) TRANSPARENCY AND STABILITY SHOULD BE ADDED TO THE MARKET.

For example, USDA could, not later than the beginning of each crop year, announce an "EEP marketing plan" specifying eligible countries and quantities of commodities available for such countries under the program.

If, under this type of scheme, the quantities specified for any individual country had not been contracted for within six months of the announcement of the plan, the quantities specified in the plan could, by public announcement, be reduced. When, on the other hand, quantities in the plan had been fully contracted, the quantities first announced in the plan could again by public announcement be increased.

Alternatively, USDA could limit its annual announcement to a list of eligible EEP recipient countries. Such a step, while not preferable to the suggestion above, would provide improved transparency while also preserving USDA's flexibility to use EEP strategically for purposes of countering foreign unfair trade practices.

(6) THE BONUS SHOULD BE ANNOUNCED ON A DAILY BASIS AND THE SAME BONUS LEVEL SHOULD APPLY TO ALL ELIGIBLE COUNTRIES.

A weekly subsidy, such as used by the EC, might also be an acceptable alternative.

(7) UPON ACCEPTING A CERTAIN QUANTITY OF AN ANNOUNCED BONUS, THE EXPORTER SHALL DECLARE THE DESTINATION.

Unwarranted "nuisance" provisions of current regulations should be eliminated or reasonably amended. For example, qualification requirements currently deny participation to an

exporter -- however financially sound and scrupulous its performance with government contracts may be -- simply on the basis that it has not, in the past, exported the commodity to be exported under a particular EEP initiative.

We have no interest in making eligible to participate in this program companies that are not properly eligible; nor have we an interest in loosening appropriate management safeguards. However, these requirements, as they apply to exporters currently participating in the program, appear to us to be anti-competitive and improperly exclusive.

Performance security requirements of EEP are needlessly burdensome. Once the financial capacity of an exporting company is established and, provided the company has a record of good performance on government contracts, the bonding requirements called for under current regulations should be waived for that company.

Likewise, regulations attending entry certification should be eased. In some cases it is difficult, if not impossible, to obtain evidence of entry in the form the regulations currently require. The regulations should allow in the alternative any competent and credible evidence such as certification by the vessel owner, any entity of the buyer's government in its country or in the United States, or a stevedoring firm, etc.. The purpose of the program is not to gather entry certificates of limited format -- it is to export grain.

Current program regulations should be amended to state that, in the event that a vessel sinks or a part of the cargo is lost, the bonus should not be forfeited.

Finally, exporters should not be penalized for failure to meet contract minimum when such failure is attributable solely to the presence of dockage. In accordance with international practice and freighting arrangements, the quantity stipulations of sales contracts provide that quantities are gross; i.e., including any dockage. CCC regulations should correspond.

The management proposals above have been submitted with particular reference to wheat. However, NAEGA notes that these proposals should be applicable to all commodities exported under the export enhancement program.

Senator BOREN. Mr. Andersen, we are very glad to have you with us, and we would welcome any comments that you would like to make and will receive your full statement for the record.

STATEMENT OF WAYNE ANDERSEN, EXECUTIVE VICE PRESIDENT AND MANAGER OF THE INTERNATIONAL BANKING DIVISION OF CoBANK—NATIONAL BANK FOR COOPERATIVES, DENVER, CO

Mr. ANDERSEN. Thank you, Mr. Chairman.

INTRODUCTION

My name is Wayne Andersen. I am executive vice president and manager of the International Banking Division of CoBank—National Bank for Cooperatives. I appreciate the opportunity to testify today on an issue that is so important to American farmers and their cooperatives.

I will summarize my remarks and request that the entire statement be made part of the hearing record.

Senator BOREN. It will be.

AGRICULTURAL EXPORT PROGRAMS

Mr. ANDERSEN. CoBank was formed on January 1, 1989, when 11 of the Farm Credit System's 13 Banks for Cooperatives merged. Today, CoBank provides financing for agricultural cooperatives—like Union Equity—rural utility systems and to support the export of cooperative-sourced farm products. CoBank is the largest bank in the Farm Credit System with over $12 billion in assets.

We provide essential leadership in the area of agricultural export financing and marketing. Today, CoBank is the leading bank in the United States in providing international banking services to support the export of cooperative-sourced agricultural commodities. CoBank is the single largest user of the GSM Export Guarantee Programs, accounting for nearly 40 percent of the GSM activity in 1989, and virtually the only U.S. bank that makes significant and consistent use of those programs.

Mr. Chairman, you might be interested in knowing that we financed about $770 million of cooperative-sourced wheat exports in 1989. Since 1982, when we first initiated the international export program under the Banks for Cooperatives system, we have financed the sale of over $10 billion in agricultural exports, including approximately 36 commodities to about 44 countries around the world. We have never lost a penny of interest or principal on any international loan during this time. Attached to my statement is additional information detailing some of these points.

Today, I'd like to address four key issues:

The need to increase the authorization levels for the GSM programs. We believe that should be increased from the current $5.5 billion to a minimum of $7 billion.

Second, the need to maintain the Export Enhancement Program at least at their current levels. And parenthetically, I might add, the need to use the enhancement programs that we have available.

Third, the need to increase Commodity Credit Corporation staffing levels so that the GSM programs can be implemented more effectively.

Fourth, the need to ensure that foreign banks that participate in the program meet certain standards. Action is needed in this area to protect the interests of taxpayers by maintaining the low loss record of the GSM programs to date.

WITH RESPECT TO THE AUTHORIZATION LEVEL FOR THE GSM PROGRAMS

Now, with respect to the authorization level for the GSM programs, we are concerned that the United States may forgo significant opportunities in the Eastern European countries if the GSM authorization level is not increased to at least $7 billion. The $5 billion annual authorization established under the 1985 farm bill was set when commodity prices were much lower and fewer countries were participating in the export credit programs.

The current $5 billion level was used almost in its entirety in 1989, and for 1990, the $5 billion has been almost completely allocated with a high percentage of that already utilized.

We believe the changes taking place in the Eastern European countries present U.S. agriculture with a narrow window of opportunity.

The European Economic Community is already moving to capture this potential market, and they will likely do so with aggressive marketing and subsidy programs as we have heard today. Timing, we believe, is crucial. The trade relationships that are established in the next 24 to 36 months could set the pattern for many years to come.

In addition, the opportunities in Eastern Europe are greater than they may appear to a casual observer because unlike the lesser-developed countries where the programs are used that need American farm products for survival, the Eastern European countries are likely to experience strong growth once the initial adjustment to a more free economic system are completed. This will open tremendous markets for value-added products and consumer products. In the future, we feel that the American farmers will gain much more from the export of value-added agricultural products.

With respect to the Export Enhancement Program, the administration's reluctance to use the program this year has had a serious adverse effect on exports, particularly wheat. In 1989, the EEP program was involved in over 50 percent of our total wheat exports. In addition, the EEP Program will be an essential bargaining tool as we negotiate with the European Economic Community in the current round of the GATT talks.

For these reasons, we strongly urge Congress to at least maintain the EEP program at current or increased funding levels.

Mr. Chairman, it will take trained and skilled professionals to manage the government's role in opening new agricultural markets, especially in the Eastern European countries. CoBank already provides substantial technical advice and consultation for Commodity Credit Corporation staff and foreign officials who are interested in participating in the GSM programs.

The USDA staff is hardworking, and they are talented. However, activity has increased in the GSM programs during the past several years, and further growth is necessary. To manage a larger program and expand into new markets is going to require more people.

I have already noted that CoBank is the only U.S. lender that makes significant and consistent use of the Department of Agriculture's export loan guarantee programs in nearly all recipient countries. Many U.S. lenders have curtailed or eliminated their agricultural export financing operations to pursue more profitable endeavors.

It is ironic that American farmers must depend upon foreign banks—with the exception of CoBank—to finance the export of agricultural products. Attached to my testimony are two news stories that relate to this issue.

This reliance on foreign banks presents some rather unique problems. The availability of financing is key to promoting agricultural exports. For that reason, the foreign banks provide a very necessary service. However, if those banks do not use prudent lending practices or mishandle the complicated paperwork involved in export transactions, the Commodity Credit Corporation could experience losses. To help alleviate this problem, we have recommended regulatory changes to the CCC programs. A copy of our recommended changes is attached to my testimony.

One key change would be to require an arm's length relationship between the foreign bank issuing the letter of credit and the U.S. bank receiving the assignment of the GSM guarantee, the CCC's guarantee. At present, the U.S. bank receiving the guarantee can be a subsidiary of the foreign bank that issues the letter of credit or, as in some cases, simply a different bank owned by the government of the recipient country.

From a banking standpoint, the U.S. Government is assuming unnecessary risk by allowing banks headquartered within the same country or their subsidiaries within the United States to both issue the letter of credit and receive the guarantee.

In our view, the GSM programs have had very little, if any, cost to the taxpayers while they have provided enormous benefits to farmers, the U.S. economy in general, and have helped to reduce the balance of trade deficits. We think it is essential to maintain that record.

CONCLUSION

Mr. Chairman, adequate financing must be a key part of any plan to increase agricultural exports. Financing improves the marketability of agricultural products and the health of rural economies. Clearly, the GSM programs and the EEP have made a significant contribution, and we hope you will give our thoughts on these issues serious consideration.

Thank you for the opportunity to testify. I would be happy to respond to any questions.

[The prepared statement and attached material of Mr. Andersen follow:]

AGRICULTURAL EXPORT PROGRAMS

TESTIMONY PRESENTED TO THE SENATE AGRICULTURE SUBCOMMITTEE

ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION

BY

WAYNE ANDERSEN

EXECUTIVE VICE PRESIDENT

CoBANK—NATIONAL BANK FOR COOPERATIVES

FEBRUARY 6, 1990

Agricultural Export Programs

Mr. Chairman, my name is Wayne Andersen. I'm executive vice president and manager of the International Banking Division of CoBank--National Bank for Cooperatives. I appreciate the opportunity to testify today on this issue that is important to farmers and their cooperatives.

I will summarize my remarks but request that my entire statement be made part of the hearing record.

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Today, I will address four key issues.

- The need to increase the authorization levels for the GSM programs from the current $5 billion to a minimum of $7 billion.

- The need to maintain the Export Enhancement Program at least at current levels.

- The need to increase Commodity Credit Corporation staffing levels so that the GSM programs can be implemented more effectively.

EO14/18

- The need to ensure that foreign banks that participate in the program meet certain standards. Action is needed in this area to protect the interests of taxpayers by maintaining the low loss record of the GSM programs.

With respect to the authorization level for the GSM programs, we are concerned that the U.S. may forgo significant opportunities in the Eastern European countries if the GSM authorization level is not increased to at least $7 billion. The $5 billion annual authorization established under the 1985 Farm Bill was set when commodity prices were much lower and fewer countries were participating in the export credit programs.

The current $5 billion level was used entirely in 1989. For 1990, the $5 billion has been almost completely allocated with a high percentage already used.

We believe the changes taking place in the Eastern European countries presents U.S. agriculture with a narrow window of opportunity.

The European Economic Community is already moving to capture this potential market and they will likely do so with aggressive marketing and subsidy programs. Timing is crucial. The trade relationships that are established in the next 24 to 36 months could set the pattern for years to come.

In addition, the opportunities in Eastern Europe are greater than they may appear to the casual observer. Unlike the Lesser Developed Countries that need American farm products for survival, the Eastern European countries are likely to experience strong growth once the initial adjustments to a more free economic system are completed. This will open tremendous markets for value-added and consumer products. In the future, American farmers will gain much more from the export of value-added agricultural products.

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For these reasons, we strongly urge Congress to maintain the EEP program at current or increased funding levels.

Mr. Chairman, it will take trained and skilled professionals to manage the government's role in opening new agricultural markets. CoBank already provides substantial technical advice and consultation for Commodity Credit Corporation staff and foreign officials who are interested in participating in the GSM programs.

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From a banking standpoint, the U.S. government is assuming unnecessary risk by allowing banks headquartered within the same country or their subsidiaries within the U.S. to both issue the letter of credit and receive the guarantee.

In our view, the GSM programs have had very little, if any, cost to the taxpayers while they have provided enormous benefits to farmers, the U.S. economy in general, and helped to reduce the balance of trade deficits. We think it's essential to maintain that record.

Mr. Chairman, adequate financing must be a key part of any plan to increase agricultural exports. Financing improves the marketability of agricultural products and the health of rural economies. Clearly, the GSM programs and EEP have made a significant contribution and we hope you will give our thoughts on this issue serious consideration.

Thank you for the opportunity to testify today. I'd be happy to respond to any questions.

Additional Background Information

The Farm Credit Act was amended in 1980 to authorize the Banks for Cooperatives to finance the export of agricultural products originating from farmer-owned cooperatives for the benefit of American farmers. The Banks for Cooperatives placed responsibility for implementing the international banking program with the Central Bank for Cooperatives in Denver, Colorado, which is now part of CoBank.

Credit quality has been maintained notwithstanding the dramatic increase in loan volume. Over 99 percent of the bank's international loans are classified as acceptable. The bank has never had an international loan classified "doubtful" or "loss" and the bank has never had an international loan charge-off. An insignificant portion of the loan portfolio was classified "substandard" by the bank's internal credit evaluation and a Farm Credit Administration audit completed in 1989.

Through the bank's internal country risk analysis, CoBank has been able to limit and effectively manage its foreign credit risk. Further, a high percentage of the bank's international loans are backed by Commodity Credit Corporation guarantees--although the only claims filed involved rescheduling of loans.

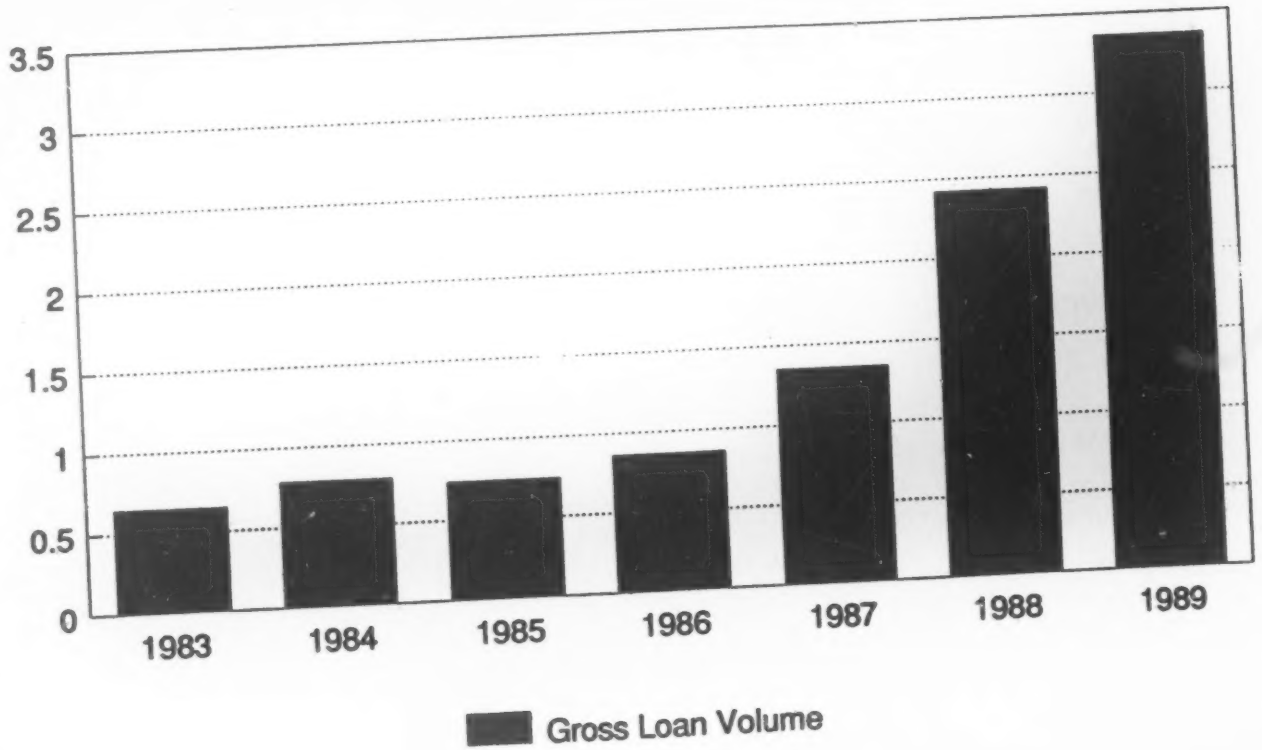
EO14/18

INTERNATIONAL SERVICES

- Term loans
- Import, export and standby letters of credit
- Guarantees
- Banker's acceptances
- Documentary collection services
- Foreign exchange services
- Funds transfers
- Credit checks
- Information on insurance programs to cover exports

INTERNATIONAL LOAN VOLUME

($ in Billions)



COMMODITIES FINANCED

Almonds
Barley
Beans
Bonemeal
Brown Rice
Corn Gluten Meal
Cotton
Corn
Fertilizer
Fur Skins
Grain
Lentils
Livestock/Poultry
Lumber
Malt
Milo
Nuts
Oilseed
Peas
Planting Seeds
Poultry Seeds
Powdered Skim Milk
Rice
Semolina
Skins and Hides
Sorghum
Soybeans
Soybean Meal
Sunseeds
Tallow
Tobacco
Transportation
Vegetable Oils
Wheat
Wheat Flour
Wood Products

CORRESPONDENT BANKING RELATIONSHIPS

Algeria
Argentina
Australia
Austria
Bahrain
Bangladesh
Belgium
Bolivia
Brazil
Bulgaria
Canada
Chile
China (PRC)
Colombia
Costa Rica
Dominican Republic
East Germany
Ecuador
Egypt
El Salvador
France
Greece
Guatemala
Haiti
Hong Kong
Hungary
India
Indonesia
Iraq
Israel
Italy
Jamaica
Japan
Jordan
Malaysia
Mexico
Morocco
New Zealand
Netherlands
North Yemen
Norway
Peru
Philippines
Portugal
Romania
Saudi Arabia
Senegal
Singapore
South Africa
South Korea
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Trinidad
Tunisia
Turkey
U.S.S.R.
United Kingdom
Venezuela
West Germany
Yugoslavia

Absence of Trade Finance Is Hurting the Export Trade Most

TUCSON, Ariz. — The importance of trimming the value of the dollar to improve competitiveness of U.S. industries abroad has been overplayed, a financial consultant and former international banker told attendees here at the National Feed Ingredients Association's annual meeting held late last month.

"The single most important issue -- the missing ingredient -- is the absence of trade finance," said William Rapp, president of Resources International, Inc.

"Today, 76% of all companies finance their own exports, while banks are closing their international finance departments," said Rapp.

Regional banks have left the international finance business, after rushing into it several years ago, due to insufficient knowledge of how the international markets operate and lack of individual institutional commitment, said Rapp.

A huge potential is being lost because banks are largely absent from international business, and because the Export-Import Bank is poorly funded, Rapp said.

Further, bank staffs for international business are totally depleted, he added.

Rapp suggested to the agribusiness meeting attendees that local banks must provide support for international business and market opportunities.

"If you work with a local bank, get some support," said Rapp. "You need to keep the pressure on them. Don't give them the rest of your business if they don't support your international business.

Shopping for financing can pay off, he said. Some banks will get into market niches that can fit a company's needs.

Drawing on his own banking experience, Rapp cited the example of an Arizona bank's involvement in cotton exports. The bank expanded newly-developed cotton export financing business into other states.

Foreign banks that maintain offices in the U.S. can be good sources of export financing, Rapp said.

These banks, in most major U.S. cities, tend to be in the domestic market primarily to help improve exports from their home countries. But they also finance imports to their homelands.

"If you can position yourself -- make your product part of an export back to the U.S. -- they're very interested," said Rapp.

Today, 76% of all companies finance their own exports.

A revitalized resource is old-line merchant banking, but with a new approach of co-venturing, he said.

A 1982 law in the U.S. allowed banks to trade in export markets. But traders are risk takers, while bankers are risk avoiders, he added.

"Many banks left this business quickly because they didn't get the profits they had hoped to gain. They gave the effort a short trial and they preferred short-run profit opportunities," he said.

"Some banks that stayed in export

--National Farm Finance News 10/27/89

Absence of Trade Finance Is Hurting The
Export Trade Most--Page 2
--National Farm Finance News 10/27/89

trading have begun co-venturing. The firm that needs financing brings a product and a market knowledge to the venture. The merchant bank brings financial knowledge and capital."

This type of financing generally is based on performance risk rather than on balance sheet risks, Rapp explained.

In exchange for the capital and financial knowledge, the banker will often want control of finance, credit, shipping and payment details.

"But they can plug you into many different activities," said Rapp. These include leasing, countertrade export insurance, foreign exchange invoicing, and debt-equity swaps.

The co-venture comes with disadvantages, Rapp cautioned.

"You must share control and profits...They (the benefits) are not cheap," he said.

"The cost will depend on the complexity and risk of the venture. The size of the deal may also cause difficulties, he said.

The bankers, said Rapp, tend to prefer transactions in the $50,000 range, although "they might have a hard time finding this kind of relationship."

Pooling individual small-firm efforts may be a way around the limitations of small transaction size.

Meanwhile, a Canadian agriculture official speaking in another presentation at the conference here said that several feed ingredients are under U.S. and Canadian review for accelerated reduction of tariffs under provisions of the Canada - U.S. Free Trade Agreement (FTA).

Among those ingredients are calcium phosphates, mono-disodium phosphates, calcium carbonates, chloride, chloride oxides, commercial calcium hydrochloride and sodium bicarbonate, said Phil de Kemp, commercial officer in Agriculture Canada.

Some grains, oilseeds and products are on the list of items to be considered for accelerated tariff reduction, said de Kemp.

The U.S. and Canada exchanged lists in April, are reviewing public comment and will negotiate beginning in October for reduction to become effective on Jan. 1, 1990.

The process is likely to be annual, said de Kemp.

The FTA, which became effective on Jan. 1, 1989, provides for more secure access to markets across the border; eliminates all tariffs and most non-tariff trade barriers; and establishes a fair set of trade rules to allow the countries to compete equally in both markets.

Eight binational group have been formed to harmonize technical regulations, in the area of technical regulation and standards for agricultural and related products, noted de Kemp.

One of those groups will deal exclusively with veterinary drugs and animal feeds.

The feed group will work toward harmonization or equivalence of Federal government requirements for labeling, content guarantees, testing requirements and exceptions from specified regulations.

It also will work toward harmonization or equivalence of Federal requirements for source, type, level, directions for use, withdrawal times, compatibility, cautions and warnings for additives and drugs that are allowed in feeds, de Kemp explained

Absence of Trade Finance Is Hurting The Export Trade Most--Page 3
--National Farm Finance News 10/27/89

The group will work through the National Association of State Departments of Agriculture and the Association of American Feed Control Officials to harmonize requirements for labeling, content guarantees, packaging and testing requirements, tonnage fees, registration requirements and exemptions from specified regulations.

De Kemp said that all tariffs on livestock and processed meat will be eliminated between the countries.

"We expect increased exports of Canadian finished beef for slaughter as well as for pork," he said.

The issue of Canadian pork exports to the U.S. is now to be reviewed by a binational panel to see if the U.S. International Trade Commission's latest pork duty decision was justified, based on legislation that was on the books, said de Kemp.

Sales of Canadian canola oil, soybean oil, high-quality wheat and oats to the U.S. will increase under the agreement.

Canada and the U.S. are each other's most important customer for agricultural products, de Kemp observed.

Canada sells about $2.8 billion of agricultural products to the U.S. annually, and buys about $3.9 billion in agricultural products.

Meanwhile, the growing importance of socio-economic criteria in the registration of feed additives by Western European countries is a priority concern to feed ingredient suppliers there, an industry representative told the meeting.

Three important criteria for registration of products in Western Europe have been quality, safety and efficiency.

Those criteria are objective, scientific and well-tried. But the socio-economic criteria are subjective, nonscientific and fully or partially unknown.

"So we struggle against this," said Dr. Robert Grivegnee, president of the European Federation for Additives in Animal Nutrition (FEFANA).

The "feed additives" in European Community terms include such products as antibiotics, antioxidants, preservatives, vitamins, trace elements, growth promoters and others.

These products, covered by feed additive regulations, generally are marketed to feed manufacturers as raw materials for feeds.

"Veterinary products" are subject to pharmaceutical regulations, and are marketed as finished products to farmers via different channels," said Grivegnee.

He also suggested to marketers what companies can expect as they approach the European Community market after member countries open their borders more fully to one another in 1992.

Europe is becoming more and more just one market, and U.S. companies already have a large stake in the EC feed additive markets.

A list of the membership in FRANA, the Belgian national association that is one of the nine national association members in FEFANA, showed that the membership is evenly split between European and U.S. firms.

"Fortress Europe" is impossible, said Grivegnee. "American, Japanese and other international firms already are in the market, participating vigorously with European firms."

THE WASHINGTON POST

U.S. Banks Accused of Failing to Meet Needs of Exporters

By Beatrice Motamedi
United Press International

SAN FRANCISCO, Sept. 16—A top federal trade official today accused major U.S. banks of failing to meet the needs of American exporters attempting to sell their goods in foreign markets.

"We are finding some foreign banks of one country financing exports of the United States to a third country," said John A. Bohn Jr., chairman of the U.S. Export-Import Bank.

"They're essentially prepared to take the risk of those markets more than [is] the American side," Bohn told the President's Export Council, holding its semiannual meeting in San Francisco.

Bohn said that foreign banks have frequently shown more enthusiasm for U.S. government trading programs than have American banks.

"If it moves a U.S. export, so much the better," said Bohn, whose agency supports trade by offering export financing, guarantees, insurance and low-cost loans.

Bohn said deregulation, the erosion of the barrier between commercial and investment banking, and the Latin American debt crisis have "badly shaken" the U.S. banking system.

Bohn said major banks now face "intense pressure" to boost their equity capital instead of financing risky projects abroad.

"The trade business does not produce the quick-profit, high-glamor kind of stuff that Wall Street does," Bohn said, adding he believes there is a lack of talented bankers working in the area of international trade.

Bohn said regional banks, which increasingly "outperform" major money center banks, are mindful of the Federal Reserve Board's focus on capital adequacy and are thus reluctant to finance trade deals, except "for very important clients."

Bohn also said he expects the U.S. trade deficit, which rose to a slightly worse-than-expected $16.5 billion in July, to show some improvement in September or October. He predicted exports of transportation equipment, especially aircraft, communications equipment and perhaps agriculture will be up in the fall.

Others at the meeting of the council, a group of top-level industry executives that advises President Reagan on trade matters, voiced frustration over a variety of American exports from fish to high-tech electronics.

Trade officials from California and Alaska, whose economies are heavily dependent on exports, said state industries need more support from the federal government and from U.S. negotiators at an international round of trade talks taking place under the General Agreement on Tariffs and Trade in Geneva.

"California firms need to achieve real progress in the new round [of talks]," said Robert D. Kleist, president of the California Council for International Trade, citing barriers to exports of high-quality California farm crops.

Alaska's salmon industry needs research and development money to fend off competition from government-subsidized fish farmers in Norway, said John A. Smith, commissioner of the Alaska Department of Commerce and Economic Development.

Reports of unfair Japanese trading practices in the area of electronics got support from an unlikely source: Japanese-born Aki Sato, president of NASAM, the U.S. trading arm of Cleveland-based Banner Industries.

In a comment that elicited appreciative chuckles from a mostly American audience, Sato complained of "invisible politics, invisible practices" that have hampered his efforts to promote exports of U.S. high-technology and military equipment, such as aircraft, missiles and satellite parts.

Central Bank for Cooperatives

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Mr. Melvin E. Sims
General Sales Manager
Foreign Agricultural Service
Department of Agriculture
Washington, DC 20250

Dear Mel:

The following are commentaries from the Central Bank for Cooperatives regarding the proposed issuance of rules and regulations to 7 CFR part 1493-CCC Export Credit Guarantee Program (GSM-102)/Sub-part A - Guaranteeing Against Default by Foreign Banks.

There would appear to be some inconsistencies in language in general whereby in certain instances "notice of non-payment" has been inserted for "notice of default". There is also reference to "financing institutions" where in most areas this is referred as the "assignees". We believe that it would be worth while to review the regulation as is, as well as the proposed changes to assure that there are no inconsistencies in the overall terminology.

The following are commentaries on the regulation and proposed changes as we would like to see them and our reason for so recommending. We are sighting the part and sub-part numbers, as well as the page number per the Code of Regulations #7 parts 1200 to 1499 revised as of January 1, 1985.

Page 610, section 1493.1(a). The last sentence should indicate "assignees" instead of "financing institutions" immediately prior to "CCC, GSM-102 and 103 are intended...". This would keep the terminology consistent.

Page 610, section 1493.2(e). "Eligible Interest". This section would appear to be one of the more important changes to the present regulation especially as it applies to the GSM-103 area. CBC does not have problems with the wording, however it has some concerns as to how the "automatic adjustments" will be set. CBC is especially interested in this and has no problem with it if the "automatic adjustments" are such that they will be often enough and move in line with major shifts in interest rates as they occur. CBC has some specific thoughts in this area which could tie the "eligible interest" closely to the assignee's funding cost on the dates that interest rates are set or adjusted which we believe may be the most equitable way of doing this for all parties concerned. We would like to have the opportunity to review this with you prior to finalization of the proposed change. However, our major concern in this is assuring ourselves

Part of the Farm Credit System

Location: 5500 So. Quebec Street, Englewood, Colorado 80111

that "automatic adjustments" would protect the bank from undue interest rate exposure during the entire life of the loan. CBC also understands that this will now cover the GSM-102, as well. In this same area "the average investment rate of the most recent 52-week treasury bills" is used. We believe that it would be a bit clearer to make the word "bills" singular and not delete the word "auction" immediately thereafter.

Page 612, section 1493.4(e). CBC believes that the wording in this section should be changed to read as follows: "The assignee shall not be a branch, agency, subsidiary, or home office of the foreign bank issuing the letter of credit or a branch, agency or subsidiary of any other bank headquartered in the same country as the foreign bank". Our suggested changes are intended to prevent a subsidiary of the opening bank or another bank headquartered in the same country as the opening bank (or a branch, agency or subsidiary of such other bank) from being the U.S. assignee. Our thinking behind the suggested changes is twofold. First, we believe that the change will enhance the independence of the assignee and that it is in the best interest of the CCC and U.S. Government to assure that an arm's length relationship is maintained between the issuing bank and the assignee. It is difficult to envision an assignee bank owned or controlled either directly or indirectly by a foreign government taking a strong collection approach toward another government or related banking entity. Further, we believe that this would more accurately reflect the intent of the original regulation. Second, we believe that such a change will confirm an actual need for the financing; i.e., if the foreign bank already has access to funding in the U.S. market, why do they need to make a term loan available to themselves.

Page 612, section 1493.7(b). CBC would propose that the following wording be inserted between the phrase "date of the export" and "the payment guarantee": "or in the case of shipments by rail or truck, 60 days after the date of export". Our reason for the suggestion arises out of the continued failure of Mexico to timely provide a landing certificate. As a result of that failure, we and/or the exporters are constantly forced to seek an extension of time to file the report from CCC, which inceases CCC's and our administrative burden. As Mexico is generally supplying those certificates within 60 days, we can avoid that burden by simply increasing the time to file the reports for these types of exports.

Page 613, section 1493.8(a). In the last sentence the word "default" is used and could possibly be considered to mean "non-payment" as per our original observation and as the change has been made in other areas. Also we believe that the words "if payment is not received" should be retained as in the original regulation. If it is deleted, it will require banks to report any payment not received on the due date, even if the opening bank makes the payment within 10 days of the due date. We believe that the proposed change will create undue problems and volumes of paperwork not required under the present regulation. We would also suggest for clarification purposes that the words "exclusive of days of grace" be inserted right after the words "due date" in the first sentence of the regulation as presently written.

Mr. Melvin E. Sims

Page 3

Page 613, section 1493.9(a). Again as to the interest rate, we would recommend that your proposed wording change the word "bills" to "bill" and leave in the word "auction".

Page 613, section 1493.10(d). We recommend that the word "the" on the next to the last line be deleted and replaced with the word "its".

We appreciate the opportunity to provide you with comments on the proposed regulations and look forward to working with you in finalizing these important changes.

Sincerely,

Wayne C. Andersen
Senior Vice President
International Banking Division
Central Bank for Cooperatives

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IB7/17

Senator BOREN. Thank you very much.

Let me ask Mr. Bud Anderson, have you received these suggestions as you are looking in the study in terms of the requirements for foreign banks to participate, this recommendation of an arm's length relationship; is that one of the things you are considering at this point?

Mr. ANDERSON. It is one of the things we are looking at, the whole area of the foreign bank side of this issue and we are looking at this arm's length issue as well.

Senator BOREN. OK.

Mr. Andersen, there is a lot of discussion about how the CCC evaluates countries in terms of their being credit risks, in terms of doing business with them, and I wonder how CoBank evaluates the creditworthiness of the countries that you are considering lending to.

Mr. ANDERSEN. We have a two-tiered arrangement of evaluating credit risk vis-a-vis extending credit to foreign credit takers. First, we look at the country itself and its historic past, its present numbers, and try to project that into the future vis-a-vis its ability to meet its trade obligations, credit obligations in the future. We look at it from a very broad spectrum of statistical data as well as on-the-spot data that we have gathered in our meetings in those countries.

At that point, we assess that country, give that country a rating, and that rating then relates to the amount of credit that we would be willing to extend to that country in total at any given point of time, and it will vary depending upon the creditworthiness of the country.

Then we do a second assessment of the individual credit taker within that country, i.e. the banks that we may be dealing with and/or the purchaser if it is a direct credit, and we make the same kind of assessment on that level with the individual credit taker that we have vis-a-vis the total credit that we will extent to the country. And in that two-tiered process, we have felt we have been very fortunate—some people would call it lucky—in not having had any credit losses during the time we have been extending credit.

Senator BOREN. Thank you very much, Mr. Andersen.

Mr. Curtis, we are very glad to have you with us and welcome any comments that you would like to make.

STATEMENT OF ALEX CURTIS, PRESIDENT, FARMERS GRAIN TERMINAL, GREENVILLE, MS

Mr. CURTIS. Thank you, Mr. Chairman.

INTRODUCTION

My name is Alex Curtis. I am a rice, cotton and soybean producer from Greenville, Mississippi and president of Farmers Grain Terminal which is also located in Greenville. I also serve as Chairman of the Agricultural and Trade Policy Committee of the National Council of Farmer Cooperatives on whose behalf I appear today.

I certainly agree with your comments, sir, and the comments of the other witnesses here with me on the trade issues and the trade

sections of the 1985 farm bill. We all know it has worked very well and needs strengthening.

MARKETING LOAN PROGRAM

One part of that piece of legislation which has not been mentioned in depth here today that I would like to emphasize is the Marketing Loan Program as used in rice, cotton and honey; we think, of course, that has worked extremely well and look for its continuation.

HOW SUCCESSFUL HAVE THESE PROGRAMS BEEN?

How successful have these programs been? Since their enactment, U.S. agricultural exports have increased dramatically in terms of both sales and volume. Sales, in terms of dollar value, are up over 50 percent, while the actual volume of exports has increased over 34 percent. As you mentioned, our share of the world market for many of these commodities has also improved significantly and needs to improve further.

EROSION OF OUR POSITION IN THE WORLD MARKET FOR SOYBEANS

This has been true for virtually every commodity across-the-board with the possible exception of soybeans. Because of a combination of factors, we are seeing an erosion of our position in the world market for soybeans which represents a very real threat to our domestic industry.

Certainly, there needs to be a reexamination of current policies and programs if we are to continue to have a viable and competitive domestic soybean industry. A marketing loan program, similar to that for cotton and rice, or other related approach, offers one alternative that I hope will be looked at very carefully.

While USDA is projecting a slight decrease in volume of total U.S. agricultural exports for this fiscal year, the clear evidence remains that the 1985 farm bill has worked well and enabled us to compete more effectively in the international marketplace.

1990 FARM BILL

Looking ahead to the 1990 farm bill, an aggressive approach is also necessary if we are to continue to put pressure on the European Community and other countries in order to reach a satisfactory agreement in the Uruguay round of the GATT negotiations.

RECOMMENDATIONS

This includes making sure that U.S. agricultural commodities remain price-competitive, that we have adequate credit resources, and that we are able to respond to unfair foreign trade practices.

In the long run, our focus should be on overseas market development, helping improve world demand, and ensuring that the United States is able to compete for its fair share of that growth. And we must be viable producers if we are to benefit from these efforts. Meeting this challenge will also require support for strengthening and maintaining our research base if we are to remain competitive in the long run. Within this overall context, we recommend the following:

First, that our domestic farm programs continue to protect income while recognizing the need to be price-competitive.

Second, that the Export Enhancement Program be maintained at a level to achieve its objectives.

Third, that the Targeted Export Assistance Program be authorized at no less than $325 million as currently provided to promote market development, counter unfair foreign trade practices, and allow U.S. agriculture to compete more effectively.

Fourth, that the GSM-102 and 103 credit programs be expanded to ensure adequate credit to facilitate our export sales, particularly in recognition of potential demand resulting from the developments in Eastern Europe.

Fifth, that the Public Law 480 program be maintained and strengthened particularly with programs relating to the title II section of that program. In addition to providing adequate funding, this would include procedures for streamlined decisionmaking, making such funds available at the beginning of the year, and ensuring that eligible commodities are made available through the term of ongoing projects.

Again, Mr. Chairman, I want to commend you very highly and the others on this committee for your leadership. We appreciate very much your efforts on behalf of agriculture, and we look forward to working with you in the future.

[The prepared statement of Mr. Curtis follows:]

Testimony Presented by
Alex Curtis
On Behalf of The
National Council of Farmer Cooperatives
Before
Senate Agriculture Subcommittee
on
Domestic and Foreign Marketing
and
Product Promotion
February 6, 1990

Thank you, Mr. Chairman. My name is Alex Curtis. I am a cotton and soybean producer from Greenville, Mississippi and President of Farmers Grain Terminal, which is also located in Greenville. I also serve as Chairman of the Agricultural and Trade Policy Committee of the National Council of Farmer Cooperatives on whose behalf I appear today.

One of the driving forces behind the 1985 Farm Bill was the need to enhance the ability of U.S. agriculture to compete more effectively in the international marketplace. In response, a number of programs were enacted such as the marketing loan program for cotton, rice and honey; the export enhancement program (EEP); and the Targeted Export Assistance (TEA) program. Other provisions were adopted in order to strengthen existing programs such as P.L. 480 and to provide needed credit and credit guarantees.

How successful have these programs been? Since their enactment, U.S. agricultural exports have increased dramatically in terms of both sales and volume. Sales - in terms of dollar

value - are up over 50 percent, while the actual volume of exports has increased over 34 percent. At the same time, our share of the world market for many commodities has also improved significantly.

This has been true for virtually every commodity across the board with the possible exception of soybeans. Because of a combination of factors, we're seeing an erosion of our position in the world market for soybeans which represents a very real threat to our domestic industry.

Certainly, there needs to be a reexamination of current policies and programs if we are to continue to have a viable and competitive domestic soybean industry. A marketing loan program, similar to that for cotton and rice, or other related approach, offers one alternative that I hope will be looked at carefully.

While USDA is projecting a slight decrease in the volume of total U.S. agricultural exports for this fiscal year, the clear evidence remains that the 1985 Farm Bill has worked well and enabled us to compete more effectively in the international marketplace.

Looking ahead to the 1990 Farm Bill, it is critical that we maintain this momentum as well as look for new opportunities to improve our ability to compete. An aggressive approach is also necessary if we are to continue to put pressure on the European

Community and other countries in order to reach a satisfactory agreement under the Uruguay Round of GATT negotiations.

This includes making sure that U.S. agricultural commodites remain price competitive, that we have adequate credit resources, and that we are able to respond to unfair foreign trade practices.

In the long run, our focus should be on overseas market development, helping improve world demand, and ensuring that the U.S. is able to compete for its fair share of that growth. Meeting this challenge will also require support for strengthening and maintaining our research base if we are to remain competitive in the long run. Within this overall context, we recommend the following:

One, that our domestic farm programs continue to protect farm income while recognizing the need to be price-competitive;

Two, that the export enhancement program (EEP) be maintained at a level necessary to achieve its objectives;

Three, that the targeted export assistance program (TEA) be reauthorized at no less than 325 million dollars as currently provided to promote market development, counter unfair foreign trade practices, and allow U.S. agriculture to compete more effectively;

Fourth, that the GSM 102 and 103 credit programs, which are currently authorized at no less than 5 billion and 500 million dollars, respectively, be expanded to ensure adequate credit to facilitate our export sales, particularly in recognition of potential demand resulting from the changes taking place in eastern Europe and elsewhere; and

Five, that the P.L. 480 program be maintained and strengthened particularly with regard to programs relating to market development under Title II. In addition to providing adequate funding, this would include procedures for streamlined decision-making, making such funds available at the beginning of the year and ensuring that eligible commodities are made available throughout the term of ongoing projects.

Again, Mr. Chairman, I want to commend you and the others on this Committee for your leadership. We appreciate very much your efforts on behalf of agriculture and we look forward to working with you and your staff to address these issues and concerns. Thank you.

Senator BOREN. Thank you very much, Mr. Curtis. We very much appreciate you being with us and being a part of this panel.

All of you have reinforced each other with the points that you have made, and I appreciate Bud Anderson staying here and listening to these comments as well because I think they will be very helpful in terms of how we implement the program.

Senator Conrad, are there any questions you might have before we turn to the next panel?

Senator CONRAD. No. I think the panel has made the points very clearly. It seems, Mr. Chairman, readily apparent to most of us that we are in a real battle for these world markets, and our European friends have come well-armed. In commodity after commodity, they are supporting crops to the tune of triple world market prices. That is why it is especially of concern to us when we see our own country not engaging. And frankly, when you are out there and you have an authorization for $770 million for EEP, and you only use $338 million of it, that tells me we are not seriously engaging and don't seem to understand the quality of the contest that we find ourselves in.

I am absolutely persuaded that our European friends see this as an economic war, and their strategy is to go out and capture markets, and they are doing that all across the world. They are out there, buying markets. And then at some point they are going to say, "Okay, now let's play fair."

And frankly, this is not a time for us to be in retreat. We ought to have a full-scale battle plan of our own; we ought to be on the attack, and that means we ought to have a very aggressive farm bill in this year, the GATT round. And I very much appreciate the testimony of this panel, Mr. Chairman.

Senator BOREN. Thank you very much, Senator Conrad.

We thank all of you for being with us today, and we will receive your full testimony into the record.

I'd like to ask at this time that our concluding panel would come forward--Mr. Paul Drazek, assistant director, National Affairs Division, American Farm Bureau Federation; Winston Wilson, president of U.S. Wheat Associates; Larry La Touf, chairman of the Foreign Operations Committee of the National Cotton Council of America; and David Graves, president of the Rice Millers' Association.

Gentlemen, we are very glad to have all of you with us. I might ask again, as we have the others, if you could to summarize your testimony for us. Obviously we have covered a good deal of ground already. You might merely reference perhaps others who have already spoken and say whether or not you are in agreement for the same reasons or in disagreement with what has already been said, because I am fearful that we'll get tied up again with more votes on the education bill in a little while. So we want to cover as much new ground as we can with any additional comments that you have, and we will receive your full statements into the record.

Mr. Drazek, we'll begin with you, and we appreciate you being with us.

STATEMENT OF PAUL DRAZEK, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. DRAZEK. Thank you, Mr. Chairman.

INTRODUCTION

I appreciate the opportunity to appear before this committee today on behalf of the American Farm Bureau Federation, and in the interest of time I will summarize my remarks and hope that the full text will be included in the hearing record.

Mr. Chairman, Farm Bureau is the Nation's largest general farm organization, with members in every State, plus Puerto Rico, producing virtually every type of agricultural commodity.

Farm Bureau, itself, does not directly participate in U.S. foreign market development or promotion programs. We are a nonprofit, voluntary organization of farmers and ranchers, interested in developing and maintaining programs that serve the long-term interests of American agriculture.

FOCUS MY REMARKS ON EEP AND TEA

It is from this overall perspective that I would like to comment on the importance of export market development programs to U.S. farmers. In particular, I would like to focus my remarks on the two programs that are designed to counter foreign unfair trade practices—the Export Enhancement Program (EEP) and the Targeted Export Assistance Program (TEA).

Farm Bureau has been one of the most consistent supporters of these programs since their inception. Our support is not because we advocate such mechanisms in principle, or because we believe that they have operated perfectly to expand our exports. On the contrary, our policy clearly opposes export subsidies in world agricultural markets, and we recognize that there have probably been problems in the implementation of both programs.

However, at this point in the Uruguay round of multilateral trade negotiations, it is crucial that the United States maintain all of its negotiating leverage over foreign subsidy practices. We did not have such leverage in the previous multilateral trade negotiation, the Tokyo round, and we failed to achieve any real discipline over agricultural export subsidies; without this leverage now, we will certainly fail again.

Mr. Chairman, the United States is said to have "spent" something on the order of a half billion dollars per year under the Export Enhancement Program.

We have tried to get recent years' cost figures from the European Community for their export restitution system, but we really haven't had much success. The EC is understandably reluctant to publish the numbers. Most observers believe they are in the range of $10 billion to $12 billion per year. I think Bud Anderson mentioned earlier $10 billion. If you think about that over a 10-year period, that is $100 billion spent in order to dispose of surpluses on the world market.

Senator BOREN. Maybe "ashamed" would even be a better word than "reluctant".

Mr. DRAZEK. Exactly. When you think about it, too, the European Community spends as much in a month as we spend in 2 years approximately, under the Export Enhancement Program.

EC export subsidies are completely open-ended. They have always been made available at whatever level necessary to assure that surplus products can be exported.

There is no budgetary freeze in the EC for export subsidies, and per unit subsidies are theoretically unlimited. If world prices decline or EC internal prices are raised, export subsidies are automatically increased to compensate for the loss in competitiveness of EC commodities.

Mr. Chairman, as I mentioned earlier, Farm Bureau does not have any direct involvement in government export promotion programs. Our financial stake comes only in the form of the improved farm income that would result if foreign subsidies could be eliminated.

If mistakes have been made in the programs, whether in their administration or in the implementation of individual commodity initiatives, let's try to correct them. But we should not unilaterally abandon one of the most important tools we have to demonstrate our resolve to remain the leader in world agricultural trade.

Mr. Chairman, I would like to express my appreciation to you and the other members of this committee for this opportunity to make our views known on this important issue. We in Farm Bureau look forward to working with you in the coming months as you consider ways to make these programs better serve our long-term trade interests.

Thank you.

[The prepared statement of Mr. Drazek follows:]

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STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE SENATE AGRICULTURE SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION REGARDING U.S. EXPORT MARKET DEVELOPMENT PROGRAMS

Presented by Paul Drazek
Assistant Director, National Affairs Division
American Farm Bureau Federation

February 6, 1990

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE SENATE AGRICULTURE SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION REGARDING U.S. EXPORT MARKET DEVELOPMENT PROGRAMS

Presented by Paul Drazek
Assistant Director, National Affairs Division
American Farm Bureau Federation

February 6, 1990

Thank you, Mr. Chairman. I appreciate the opportunity to appear before this committee today on behalf of the American Farm Bureau Federation.

Farm Bureau is the nation's largest general farm organization, with members in every state, plus Puerto Rico, producing virtually every type of agricultural commodity.

Mr. Chairman, Farm Bureau, itself, does not directly participate in U.S. foreign market development or promotion programs. We are a non-profit, voluntary organization of farmers and ranchers interested in developing and maintaining programs that serve the long-term interests of American agriculture.

It is from this overall perspective that I would like to comment on the importance of export market development programs to U.S. farmers. In particular, I would like to focus my remarks on the two programs that are designed to counter foreign unfair trade practices -- the Export Enhancement Program (EEP) and the Targeted Export Assistance Program (TEA).

Mr. Chairman, you may recall in 1985 that Farm Bureau was a strong advocate of a program to use surplus U.S. commodities to help U.S. farm commodities regain their competitive position in world markets. At the time, this program was commonly referred to as BICEP, or bonus incentive commodity export program. When ultimately implemented by the administration under strong encouragement from members of Congress, the program became known as the Export Enhancement Program. This program and another program aimed at countering unfair foreign trade practices, the Targeted Export Assistance Program, were subsequently mandated by Congress in the Food Security Act of 1985.

Farm Bureau has been one of the most consistent supporters of these programs since their inception. Our support is not because we support such mechanisms in principle, or because we believe they have operated perfectly to expand our exports. On the contrary, our policy clearly opposes export subsidies in world agricultural markets, and we recognize that there have probably been problems in the implementation of both programs.

However, we do not believe we should throw the baby out with the bath water. At this point in the Uruguay Round of multilateral trade talks, it is crucial that the U.S. maintain all of its negotiating leverage over foreign subsidy practices. We did not have

such leverage in the previous multilateral trade negotiation, the Tokyo Round, and we failed to achieve any real discipline over agricultural export subsidies; without this leverage now, we will certainly fail again.

Farm Bureau's policy on export subsidies and the EEP was reaffirmed by our voting delegates on January 13. Let me read what our members decided:

> "We oppose subsidization of agricultural exports in world markets by competing countries and favor imposition of countervailing duties and/or other appropriate measures. Also, we support efforts to recapture foreign markets that have been taken from us by subsidized exports. We will support the continued authorization and appropriation of funds to buy down interest rates or finance other export programs needed to offset subsidized competition from other exporting countries.
>
> "We recommend that the Export Enhancement Program be made available to all countries where the United States faces unfair or subsidized competition from foreign suppliers. This program should continue as long as the United States faces foreign subsidized competition in the various commodities."

Mr. Chairman, the United States is said to have "spent" something on the order of a half billion dollars per year under the Export Enhancement Program -- although there is some question as to whether net costs have really been that large, given savings that result from reduced domestic surpluses under the program.

We have tried to get recent years' cost figures from the European Community for their export restitution system, but we have haven't had much success. The EC is understandably reluctant to publish the numbers. Most observers believe they are in the range of $10 billion to $12 billion per year. In other words, the EC probably spends as much in a month to dispose of its surpluses on the world market as the U.S. would spend under the Export Enhancement Program in two years.

We should give the Community credit for some of the reforms it has undertaken in the last three years under its internal support system. Unfortunately, these reforms have not extended to its export subsidy system. EC export subsidies are completely open-ended. They have always been made available at whatever level necessary to assure that surplus products can be exported.

There is no budgetary freeze in the EC for export subsidies, and per unit subsidies are theoretically unlimited. If world prices decline or EC internal prices are raised, export subsidies are automatically increased to compensate for the loss in competitiveness of EC commodities. To listen to EC officials in the multilateral trade talks, it seems that they have no intention of changing this system.

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As I mentioned earlier, Farm Bureau does not have any direct involvement in government export promotion programs. Our financial stake comes only in the form of the improved farm income that would result if foreign subsidies could be eliminated.

We have often been asked, however, whether we would support the elimination of the Export Enhancement Program in the Uruguay Round. The answer is emphatically "yes", if other countries would do likewise. In fact, the elimination of foreign subsidies should result in the spontaneous elimination of U.S. counter subsidies under the EEP.

If mistakes have been made in the programs, whether in their administration or in the implementation of individual commodity initiatives, let's try to correct them. But let's not unilaterally abandon one of the most important tools we have to demonstrate our resolve to remain the leader in world agricultural trade.

Mr. Chairman, I would like to express my appreciation to you and the other members of this committee for this opportunity to make our views known on this important issue. I would also like to congratulate you for taking the initiative to hold hearings on how our export programs might be improved. We in Farm Bureau look forward to working with you in the coming months as you consider ways to make these programs better serve our long term trade interests.

Senator BOREN. Thank you very much.

You certainly make a very good point about the need to get rid of these foreign subsidies and the impact they have on farm income, and what would happen if we did not have our own export program. And let me assure you we are not about to remove our leverage in the midst of a negotiation as far as the members of this committee are concerned. We are going to try to keep maximum leverage as we go to the bargaining table with them. I think it is an excellent point that you have made.

Thank you very much.

Mr. Wilson.

STATEMENT OF WINSTON WILSON, PRESIDENT, U.S. WHEAT ASSOCIATES, INC., WASHINGTON, DC

Mr. WILSON. Thank you, Senator.

INTRODUCTION

I first would like to commend you and the committee for holding these hearings. I think it is very important and timely that these issues be looked at.

I do have a rather lengthy statement, which I will ask to submit for the record, and I will try to make my comments very quick.

I am president of U.S. Wheat Associates which, as you know, is the export market development organization funded by the U.S. wheat farmers and also the Foreign Agricultural Service of the USDA.

TEA PROGRAM

I want to address the four major programs very quickly and will begin with the TEA program, or Targeted Export Assistance Program. I think now that it has been very well proven that this program can be a very effective tool to expand export markets. And I think during the course of the consideration of the farm bill coming up, that careful consideration ought to be given to restructuring this program as a long-term market expansion program and not make it just dependent upon GATT, because I think it works and is something we ought to keep. So certainly, I hope the Congress will take a look at that.

We feel that probably some thought should be given to allowing limited domestic administrative costs being paid by the program. This is becoming a real problem for some of the groups that are using TEA, particularly now that the commodity certificates that we are receiving to pay the costs of the program are really priced below face value, so we are losing money going in and with the administrative costs on top of that, it gets to be a problem.

I think it is very important that the program not get completely bogged down by paper trails. The GAO and the OIG have looked at this program, and every time that happens we get another set of requirements for more documentation, and this is becoming a serious problem.

I think certainly we have to find a balance between good management and excessive micromanagement. This increases administrative costs considerably, and it takes more people to get so much

done. I don't really blame FAS for this as much as the fact that they have had a lot of scrutiny, and they are trying to take steps to get that turned off.

Finally in regard to the funding of the TEA program, I would say that we are very much in favor of continuing the Cooperator Program as a separate program. TEA works very well for a lot of products, particularly when you are doing ad campaigns and buying TV time to push the products. But for some of the nuts and bolts kind of market development like teaching folks how to make bread and noodles, the Cooperator Program is invaluable for that, and we think it needs to continue.

EXPORT CREDITS

In the area of export credits, there has been a lot said about that. It certainly is an important competitive factor. We feel very strongly that we do need to increase the 102 money up to $7 billion and possibly an extra $250 million in the GSM–103.

Again, as others have mentioned, we think that FAS needs additional help in the General Sales Manager's office to have more people to help manage this money. I know in my own operation, I find that as our market development funding goes up it takes more people to do this the way it needs to be done.

We also would like to see some streamlining of some Public Law 480 programs, particularly title I. We are still finding that it is much too far into the year before everybody is agreed on the program, and it becomes very difficult to get all of the programming out of the way during the fiscal year.

EEP

A word about export enhancement. Certainly, because wheat has been a major recipient of this, we think it is important to keep this going. It has certainly been a major factor in improving the agricultural export picture, but particularly the wheat picture.

We are a little concerned with some of the criticisms mentioned earlier, that the initiatives have at least been a little sticky, and I think we could phrase it as stop-and-go in recent months. I think there are probably three reasons for this. Recently, there has been some concern about crop size. We went through a period where we had a new administration, and they were sort of feeling their way around, and last but not least, there has been I think far too much and in many cases unjust criticism of the program, and when that it going on, not only USDA but other parts of the Federal Government became very cautious about new initiatives. I think it is time that we took a serious look at that.

From my point of view, a lot of this recent criticism is not justified. I think we have to be very careful that we not regiment this program to the point that it cannot compete, because it does have to compete, and if we have all the rules laid out in the newspaper every day, our competitors know what we are going to do, and it is not going to work.

I personally think that, to be honest—and this is probably risky, because they'll probably be examining my program next—but there is some pretty sloppy work done by the GAO and the OIG in some

cases because they seem not to be able to cope with the fact that one cannot look in the Wall Street Journal and get the worldwide price for wheat every day. So they second-guess—you have a bunch of accountants second-guessing some people who have been in the grain business for years as to what the world price is, and to make a statement that FAS may have underestimated by as much as $2 on the world price, which is somewhere in the $180 range, should not be considered a serious problem.

It is important to keep the program viable, regardless of crop size or whatever; we have to keep that program there because, as has been mentioned, very often the community is continuing to do their nasty things. But more importantly, I think we have lost sight of the fact that the administrative pricing policies of State trading groups like the Canadian and Australian wheat boards have exactly the same impact in terms of market disruption as to the subsidies of the Europeans. At least the Europeans are open about it. I think we need to look at that very seriously because we have information which indicates that they cut prices, too; they just make it up somewhere else. And the impact of that is the same. So we feel very strongly that we need it not just for the Europeans, because they are not the only sinners on the block.

COOPERATOR PROGRAM

Finally, I would urge the committee and all of Congress to continue to adequately support funding of the Cooperator Program and the Foreign Agricultural Service, because we feel that this is a partnership that has worked very well for many years, and I think it is one that has made a difference for American farmers.

Thank you.

[The prepared statement and attachment of Mr. Wilson follow:]

STATEMENT OF WINSTON WILSON

PRESIDENT OF U.S. WHEAT ASSOCIATES, INC.

Mr. Chairman, and members of the Subcommittee.

It is a pleasure to appear before you to offer our suggestions on how to improve the U.S. agricultural export promotion efforts.

Let me first say a few brief words about U.S. Wheat Associates and market development. We are supported by the major wheat growing states in this country representing about eight-five percent of U.S. production. In addition to receiving check-off funds from our producers, we have contracts with the Foreign Agricultural Service of USDA, and there are also contributions, often in-kind, from overseas wheat industry groups on joint activities.

The focus of our organization is the trade, the milling, and the baking industries abroad. We have fourteen overseas offices, and they carry out programs in over one hundred countries around the globe. Our aim is to provide information and technical services so that better products are produced, more wheat is utilized and additional U.S. wheat is exported.

Before getting into the text of my main remarks, I would like to express the thanks of U.S. Wheat Associates for the staunch support that both the Senate and House Agricultural Committees have provided

for market development programs. What we need to do is work together to refine and improve our existing programs rather than tearing up what we have and starting all over again. I am also concerned over the attempts to establish more requirements and additional paperwork that will make it very difficult for organizations with limited staff such as U.S. Wheat to carry out market development programs.

I will comment on the following: Targeted Export Assistance (TEA) Program; Export Credits (GSM)--including Public Law 480; the Export Enhancement Program (EEP); and the Cooperator Program.

Targeted Export Assistance (TEA)- We support a continuation of the program, and I see it as a useful adjunct or complement to the regular Cooperator Program. It has allowed us to undertake selected longer-term and sometimes larger activities than are feasible under regular Cooperator funding.

There are several problems that could be addressed under the 1990 Farm Bill which would help to put the program on a better footing. Most Cooperators are fairly small, and their budgets limited. We would recommend that a modest amount of the TEA program--up to five percent of a Cooperator's TEA allocation--be allowed for administrative expenses. The Cooperator would be expected to match the USDA outlay for administrative costs.

It would also be useful to be able to carry out selected research activities in the United States that were linked to an

overseas TEA program. At present only overseas activities can be financed under TEA.

I would also urge that some common sense be followed in running this program, particularly as it relates to evaluation. We support evaluation of activities on an on-going basis for both program management as well as planning purposes, but it is important to recognize that the evaluation process should not consume more time and money than the program itself.

Finally, I would suggest that rationale for the TEA program be broadened to include market expansion as a goal as well as addressing unfair trading practices. This change would provide more flexibility for the program in some regions where unfair trading practices have not been a major issue. The program has demonstrated that it can expand agricultural exports, and I believe that it should be continued regardless of what happens to trade barriers in the GATT. The U.S. is very much behind the other major agricultural producing countries in the area of market development.

Export Credits (GSM)- The export credit program has grown in recent years, and it is one of the mainstays of our effort to expand U.S. agricultural exports. There is strong support for expanding the program from $5 to $7 billion, and we agree with that approach. A greatly expanded program in Eastern Europe and the Soviet Union will warrant a substantial increase. We would also support an increase in the minimum GSM-103 level from $500 million to $750 million.

I would suggest a note of caution, however. We need to increase the capabilities of the General Sales Manager's office to match the assignment which they have been given. To me this would mean an increased computer capability and a small, core staff of experts in addition to the regular rotating staff. This office needs the expertise to be able to weigh financial risks and opportunities on a permanent basis. They have done an outstanding job, and a strong GSM credit program is of major importance in our export arsenal.

As a component of the credit program to increase U.S. agricultural exports, we also need to take a look at the PL480 Title I sales program and initiate changes to streamline the approval process.

A recent comment of the Deputy General Sales Manager illustrates the problem. He indicated that sixty percent of his staff's time was spent on the PL480 program ($1.5 billion) versus forty percent of their time on GSM-102 ($5 billion) and GSM-103 ($500 million).

The answer is to give USDA the clear lead in making PL480 Title I allocations early in the fiscal year. This would prevent bureaucratic delays and allow sales to take place at the time best suited to the customer's needs. By making these changes we will be attempting to help feed needy countries with less interference in their own agricultural production.

Export Enhancement Program (EEP)- Aside from the credit programs, from the standpoint of wheat export sales, the EEP has .without doubt been our most useful export program. It has provided the United States with an effective tool in dealing with those who engage in using export subsidies. Unfortunately, the United States faces significant competition from many countries around the world in wheat exports. Some of these countries may not be well endowed by nature to grow wheat, but their governments have decided to do so nonetheless.

We have often felt uncomfortable with the targeted nature of the program and the "stop and go" nature of announcing new initiatives. Much of the rationale for a restrained program has been the reduced supply availability in the last couple of years.

We have two major concerns with the program. There has been a great deal of criticism of the program, much of which has been based on misinformation. The program is too useful and important to be maligned by unjustified criticism, and we must avoid over-regulation which could destroy its usefulness. I am encouraged that the Administration has attempted to be more forthcoming with information and background on the operations of the EEP and hope that critics will have a better understanding of the program.

Another major concern is that we will give the program away before we obtain real reform in the subsidizing export practices of the competition. By this I am not just referring to the European

Community, which openly subsidizes its exports without blushing or apologizing. The grain boards of Canada and Australia subsidize exports to some countries by offering below market prices and then make it up by getting a higher price elsewhere. They then righteously hide behind an average price for the year which of course reveals nothing.

An average price figure over the course of a year has little meaning, and it smooths over cases, such as Japan where the Canadian Wheat Board has been able to obtain prices above the going market rate because it has a politically established share of that market.

Our organization obtained information in early 1989 on the pricing patterns followed by the Canadian Wheat Board (CWB) in obtaining higher than market prices in Japan which helped provide the CWB with the means to penetrate the Philippine market by offering below market prices there. In our view, administered prices are as disruptive of trade as subsidized prices. We hope that the U.S. Trade Representative recognizes this.

A comparison of the tender information indicates quite a widespread between prices offered by the CWB to the Philippines and Japan. I ask that the attached sheet be made a part of the record.

I find it very interesting that the Canadians and Australians have launched a major tirade against the EEP. It leads me to feel they are worried that it gives us a tool to counter their own

practices. The main problem with the grain boards is their administrative pricing, and I would recommend most strongly that we not compromise the EEP until they reform their practices and more openly reveal actual sales prices.

Our U.S. Wheat Board of Directors recently passed a resolution urging USDA to consider the unfair administrative pricing practices of the grain boards in providing EEP initiatives.

On a separate but related matter, the Canadians have recently attempted to prevent our International Trade Commission from revealing even their average price for Durum wheat exports to the U.S.

Mr. Chairman, let me conclude by saying a few words about the cooperator program and the Foreign Agricultural Service. This is a unique partnership that others have tried but failed to copy.

It is important that both Cooperators and the Foreign Agricultural Service have adequate resources to promote U.S. trade. We need to increase the number of U.S. Agricultural Counselors and Attaches overseas in spite of rising costs to provide these vital personnel. It would be useful to have an authorization for the Foreign Agricultural Service which would be $120 million for FY91 and increase by $5 million each year thereafter during the life of the legislation.

Thank you for the opportunity to appear before your subcommittee.

ATTACHMENT TO WINSTON WILSON'S STATEMENT, Feb.6,'90

Comparative U.S. and Canadian Spring Wheat Sale
Prices to Japan and the Philippines
(In U.S. Dollars per MT)

Tender Date	Philippines Price	Delivery Date	Japan Price	Delivery Date
1/24/89	U.S. $184.00	(Apr)	$184.43	(Mar)
	CAN 189.10	(Apr)	224.60	(Apr)
Difference		+$5.10		+$40.17
2/7/89	U.S. $184.00	(Apr)	$187.00	(Apr)
	CAN 188.75	(Apr)	216.00	(Apr)
Difference		+$4.75		+$29.00
4/11/89	U.S. $181.24	(July)	$183.27	(June)
	CAN 180.75	(July)	214.10	(June)
Difference		-$0.49		+$30.83
	U.S. $179.06	(Sept)		
	CAN 178.50	(Sept)		
Difference		-$0.56		
4/18/89	U.S. $183.85	(Oct)		
	CAN 182.65	(Oct)		
Difference		-$1.20		
5/30/89	U.S. $182.30	(Nov)	$180.70	(July)
	CAN 181.25	(Nov)	211.92	(July)
Difference		-$1.05		+$31.22
6/20/89	U.S. $182.10	(Aug)	$174.07	(Aug)
	CAN 181.75	(Aug)	198.15	(Aug)
Difference		-$0.35		+$24.08

Senator BOREN. Thank you very much, Mr. Wilson. I think your point is well-taken. We do not want to allow our focus on some of the problems with the program and our intention to address these problems and make sure that we operate as efficiently as we can, protecting the taxpayers' exposure, such as on this foreign bank matter and others, as well as we possibly can to in any way slow down our use of the program or cause us to step back from it. These are very, very valuable tools, and I think it would be a tragedy if we deprived ourselves of these important tools until we reach perfection. You deal with the problems, but you don't slow down your use of something that is very efficient in terms of us regaining our markets. And certainly we want to take care of the negatives, but there are so many positives for us to dwell upon in terms of protecting our national interests here that I think we want to make sure we keep it in perspective and do not overemphasize those problems, which are very much the exception to the rule of what is overall very much a success story of a program that is working to help the country.

I gather you probably saw the administration's statement today, talking about the TEA program, where they used the term, we are going to continue it until the completion of the Uruguay round. I gather what you'd be saying is continue it, period, and not put a contingency on that.

Mr. WILSON. Well, I think it has proven that it can expand exports. We have all said that's what we want to do, and I really do think that whatever happens in GATT that the TEA program or a similar program with a different name should be continued, because it works, so why kill it?

Senator BOREN. I agree with you.

Mr. La Touf.

STATEMENT OF LARRY La TOUF, CHAIRMAN, FOREIGN OPERATIONS COMMITTEE OF THE NATIONAL COTTON COUNCIL OF AMERICA, BAKERSFIELD, CA

Mr. LA TOUF. Thank you, Mr. Chairman and members of the committee.

INTRODUCTION

I appreciate the opportunity to appear before you today to discuss the importance of export promotion and market development programs for American agricultural products.

My name is Larry La Touf, and I am executive vice president of Calcot, Ltd., a cotton marketing cooperative based in Bakersfield, California. I am also chairman of the Foreign Operations Committee of the National Cotton Council of America. I have submitted copies of the testimony and in the interest of time will summarize for the committee.

To a large degree, the recent success of agricultural exports is due to the measures developed in the export title of the Food and Security Act of 1985. The export and market development provisions of the 1985 law have been effective and should form the basis of new farm legislation.

EXPORT CREDIT PROGRAM

The GSM export credit programs, GSM-102 and GSM-103, help American agriculture compete in many markets. The coordinated use of credit guarantees helps U.S. commodities establish new markets and maintain a higher share of other markets. Unfortunately, fluctuating exchange rates increase program participants' risk and consequently, have limited the programs effectiveness in some markets.

The cotton industry has made great use of the GSM-102 program and strongly supports its continued authorization in the 1990 legislation. GSM-102 has played a major role in the development and maintenance of substantial markets in Korea, Iraq, Algeria, and Yugoslavia. In Fiscal Year 1989, $287 million worth of cotton was sold with the help of export credit guarantees. In most cases, the GSM credit guarantee program operates with a minimal risk of a budgetary outlay by the U.S. Government.

PUBLIC LAW 480 PROGRAM

The Public Law 480 program could be very effective in aiding newly developing democracies in Eastern Europe and opening new markets for U.S. agriculture. Financing imports of food and fiber is a major constraint for these countries. Public Law 480 could provide an avenue for the United States to demonstrate its support for the recent developments in Eastern European countries and in doing so to provide an additional outlet for U.S. commodities.

EXPORT ENHANCEMENT PROGRAM

Another component of the 1985 farm law which should be continued is the Export Enhancement Program. While cotton does not benefit directly from EEP, this program does help other commodities. The marketing loan program, which is strongly supported by the cotton industry, provides our industry with equivalent support.

Our industry supports continuation of the COAP and SOAP programs, providing leverage to cottonseed and sunflower seed exporters who face stiff competition from other countries, but do not benefit from either the marketing loan or EEP. However, the National Sunflower Association joins the National Cotton Council in requesting that these programs be reexamined to determine why they have not been more broadly utilized.

TEA AND MARKET DEVELOPMENT

The cotton industry strongly urges reauthorization of the Targeted Export Assistance Program at the $325 million level mandated in the 1985 farm law. Our industry has taken its commitment seriously in its cooperation with the Department of Agriculture in the TEA program. We view TEA as a significant proactive step in competing and developing new markets.

The cotton industry believes that need and ability to develop new and expanded markets are equally important criteria for participation in the program as the need to combat unfair foreign trade practices. From this perspective, there may be some advantages in merging the TEA program with the Market Development Program.

Effective use of TEA funds generates increased exports of U.S. food and fiber, and in doing so, reduces farm program costs by increasing offtake and raising prices received by producers. Finally, market promotion and development are consistent with the official U.S. position at GATT—that is, to move increasingly away from direct export subsidies and more toward building export demand to bolster farm income.

Under the 1985 law, and at the discretion of the USDA, the TEA program can be funded by direct allocations of moneys or through the allocation of generic certificates. We urge that if TEA continues to be funded through certificates, then steps should be taken to ensure that reimbursements be at least as great as par value of the certificates.

MARKET DEVELOPMENT COOPERATOR PROGRAM

Another key component of the U.S. cotton industry's export development strategy is the Market Development Cooperator Program. This program, in existence for over 35 years, provides the base for ongoing market development activities for over 70 divergent commodities. U.S. cotton strongly urges continued support for this program and, as mentioned earlier, would look favorably toward discussion of merging this program with TEA to improve the administration of the two programs.

CONTRACT SANCTITY AND EMBARGO

The U.S. cotton industry supports continuation of the contract sanctity and embargo provisions contained in the 1985 farm law and strongly encourages their inclusion in future legislation.

FAS ATTACHÉS AND ATO'S

The U.S. cotton industry commends the performance of the Foreign Agricultural Service in its implementation of the various parts of the trade title of the 1985 farm legislation. The Agricultural Attachés Service and Agricultural Trade Offices established abroad should continue to be strengthened and report to the Department of Agriculture.

Mr. Chairman, thank you for allowing the National Cotton Council the opportunity to appear before this subcommittee today. I will try to answer any questions that you may have.

[The prepared statement of Mr. La Touf follows:]

TESTIMONY OF LARRY LA TOUF
BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND FOREIGN MARKETING AND
PRODUCT PROMOTION
SENATE AGRICULTURE COMMITTEE
FEBRUARY 6, 1990

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to discuss the importance of export promotion and market development programs for American agricultural products. My name is Larry La Touf, and I am the Executive Vice President of Calcot, Ltd., a cotton marketing cooperative based in Bakersfield, California. I am also the chairman of the Foreign Operations Committee of the National Cotton Council of America. The National Cotton Council is the central organization of the cotton industry, representing producers, ginners, warehousemen, seed crushers, merchants, cooperatives and textile manufacturers from the Carolinas to California.

As the nation's largest industry and primary employer, the food and fiber system of the United States is strategically important to the health of our national economy. Likewise, a healthy American agricultural industry is dependent upon continued success in exporting U.S. commodities.

This relationship is demonstrated by the impact agriculture has on our overall trade balance. In 1988, exports of agricultural commodities were valued at $35.3 billion, and ran a trade surplus of $14.3 billion. At the same time, non-agricultural products ran a trade deficit of $149.0 billion.

To a large degree, the recent success of agricultural exports is due to measures developed in the export title of the Food and Security Act of 1985. The export and market development provisions of the 1985 law have been effective and should form the basis for new legislation.

I would like to address a few specific provisions of the 1985.

Export Credit Programs

The GSM export credit guarantee programs (GSM 102 and GSM 103) help American agriculture compete in many markets. The coordinated use of credit guarantees helps U.S. commodities establish new markets and maintain a higher share of other markets. Unfortunately, fluctuating exchange rates increase program participants' risk and consequently, have limited the programs effectiveness in some markets.

The cotton industry has made great use of the GSM 102 program and strongly supports its continued authorization in the 1990 legislation. GSM 102 has played a major role in development and maintenance of substantial markets in Korea, Iraq,

Algeria, and Yugoslavia. In FY 1989, $287 million worth of cotton was sold with the help of credit guarantees. In most cases, the GSM credit guarantee program operates with a minimal risk of a budgetary outlay by the U.S. government.

We also support continued authorization and ultimately the capitalization of the Revolving Fund. Though there are many options available to capitalize the Revolving Fund, one avenue might be to deposit repayments of P.L. 480 loans into the fund as working capital.

P.L. 480 Programs

The American cotton industry also supports the continued use of PL 480 to feed the world's poorest citizens and to support development initiatives, which one day might raise these countries from abject poverty and make them customers for our exports.

However, the dual objectives of PL 480 to provide both food aid and development assistance have, at times, fostered conflicts with the objective of enhancement of agricultural exports.

The cotton industry supports the Agency for International Development as a lead agency in administering aid programs, but these aid programs should not displace American agricultural products from the market or subsidize the targeted country's agricultural industry to enable it to compete directly with our own commodities. The development of the Malaysian palm oil industry is a classic example of the U.S. government encouraging development of an industry which now reduces sales of U.S. commodities. Therefore the Department of Agriculture should continue to play an oversight role in administering AID projects utilizing local currency funds established by the P.L. 480 program.

The P.L. 480 program could also be very effective in aiding the newly developing democracies in Eastern Europe and opening new markets for U.S. agriculture. Financing imports of food and fiber is a major constraint for these countries. P.L. 480 could provide an avenue for the United States to demonstrate its support for the democratization of Eastern European economies, and in doing so to provide an additional outlet for U.S. commodities.

Export Enhancement Program

Another component of the 1985 farm law which should be continued is the Export Enhancement Program. While cotton does not benefit directly from EEP, this program does help other commodities. The marketing loan program, which is strongly supported by the cotton industry, provides our industry with equivalent support.

Our industry supports continuation of the COAP and SOAP programs, providing leverage to cottonseed and sunflower seed exporters who face stiff competition from

other countries but do not benefit from either the marketing loan or EEP. However the National Sunflower Association joins the National Cotton Council in requesting that these programs be re-examined to determine why they have not been more broadly utilized.

TEA and Market Development

The cotton industry strongly urges reauthorization of the Targeted Export Assistance program at the $325 million level mandated in the 1985 farm law. Our industry has taken its commitment seriously in its cooperation with the Department of Agriculture in the TEA program. We view TEA as a significant proactive step in competing and developing new markets.

The cotton industry believes that need and ability to develop new and expanded markets are equally important criteria for participation in the program as the need to combat unfair foreign trade practices. From this perspective, there may be some advantages in merging the TEA program with the Market Development Program.

Effective use of TEA funds generates increased exports of U.S. food and fiber, and in doing so reduces farm program costs by increasing offtake and raising prices received by producers. Finally, market promotion and development are consistent with the official U.S. position at GATT - that is to move increasingly away from direct export subsidies and more toward building export demand to bolster farm income.

Under the 1985 law, and at the discretion of USDA, the TEA program can be funded by direct allocations of monies or through the allocation of generic certificates. We urge that if TEA continues to be funded through certificates, then steps should be taken to ensure that reimbursements be at least as great as par value of the certificates.

Another key component of the U.S. cotton industry's export development strategy is the Market Development Cooperator Program. This program, in existence for over 35 years, provides the base for ongoing market development activities for over seventy divergent commodities. U.S. cotton strongly urges continued support for this program and, as mentioned earlier, would look favorably toward discussion of merging this program with TEA to improve the administration of the two programs.

Contract Sanctity and Embargo

The U.S. cotton industry supports continuation of the contract sanctity and embargo provisions contained in the 1985 farm law and strongly encourages their inclusion in future legislation.

FAS Attaches and ATO's

The U.S. cotton industry commends the performance of the Foreign Agricultural

Service in its implementation of the various parts of the trade title of the 1985 farm legislation. The Agricultural Attaches Service and Agricultural Trade Offices established abroad should continue to be strengthened and report to the Department of Agriculture.

Mr. Chairman, thank you for allowing the National Cotton Council the opportunity to appear before this subcommittee today.

Senator BOREN. Thank you very much, Mr. La Touf. Let me just ask one brief question.

In terms of the COAP program, have you seen an impact on the amount of exports of cottonseed oil under this provision?

Mr. LA TOUF. As I just said, primarily I am a cotton/lint merchandiser——

Senator BOREN. I understand.

Mr. LA TOUF [continuing]. And I would certainly be happy to provide the committee with proper information from the staff.

Senator BOREN. Good. That might be helpful to us if you could from the staff, just so we could have that in the record and touch on that matter in the record because I don't believe any of the other witnesses have touched on that particular program and the sunflower program as well. So it would be good to have those two statistics in the record.

Mr. LA TOUF. I would be happy to have staff provide that to the committee.

Senator BOREN. Thank you very, very much.

Mr. Graves.

STATEMENT OF DAVID GRAVES, PRESIDENT, RICE MILLERS' ASSOCIATION, WASHINGTON, DC

Mr. GRAVES. Thank you, Mr. Chairman.

INTRODUCTION

I think as an opening statement, I'd like to indicate that you will probably find the full statement submitted by the Rice Millers' Association (RMA) to be in substantial agreement with the remarks made by Mr. Wilson. However, I have a brief statement that I'd like to read at this time.

My name is David Graves. I am president of the Rice Millers' Association. RMA is the national trade association for the U.S. rice milling industry. Members include both independent rice milling companies and farmer-owned cooperatives. Associate members of the association include U.S. rice exporters.

I also appear here today on behalf of the Rice Council for Market Development. The Rice Council is funded by rice farmers as well as rice millers and is the cooperator arm of our industry that contracts with the Foreign Agricultural Service (FAS), USDA.

THE U.S. RICE INDUSTRY DEPENDS HEAVILY ON FOREIGN MARKETS

Mr. Chairman, the U.S. rice industry depends heavily on foreign markets. Over the past 5 years, an average 54 percent of total rice production has been exported annually, averaging about $700 million.

WE APPRECIATE THE OPPORTUNITY TO COMMENT TODAY ON THE EXPORT AND MARKET DEVELOPMENT PROGRAMS

We appreciate the opportunity to comment today on the export and market development programs being examined by you and the committee.

CCC CREDIT GUARANTEE PROGRAMS: GSM-102 AND GSM-103

First, the GSM program. GSM-102 and GSM-103 credit programs have been highly effective in facilitating rice exports. During 1988-89 marketing year, 80 percent of rice exports were shipped on a commercial basis, of which over one-third, $275 million, carried a GSM credit guarantee.

GSM programs have provided credit guarantees for approximately $30 billion in agricultural exports since their inception.

Our research with the Commodity Credit Corporation concludes that over the life of the program, while there have in fact been some debt rescheduled, outright defaults have occurred on only about eight-tenths of 1 percent of credit guarantees extended.

We recommend the committee consider expanding the GSM program from its present $5.5 billion minimum operating level. However, the integrity of the credit guarantee programs must be maintained. Therefore, we recommend the committee review the adequacy of FAS resources to provide proper program administration and oversight to ensure that objectives of the programs are accomplished without waste, fraud and abuse, and with equity for all eligible products.

We commend the committee for allowing the GSM programs to operate without onerous reporting requirements, which are characteristic of other programs such as Public Law 480. We believe this point is important to ensure the continued effectiveness of the programs and recommend the committee safeguard it carefully.

EXPORT ENHANCEMENT PROGRAM (EEP)

Regarding the EEP program, the U.S. rice industry has not used the EEP program as extensively as some other commodities. However, EEP has been used in two markets—Jordan and Turkey—to facilitate a total of approximately 200,000 tons of U.S. rice exports.

We urge retention of the EEP program to maintain leverage against unfair trading practices of other nations and particularly the European Community. We recommend that the EEP program be authorized at not less than $1 billion.

TARGETED EXPORT ASSISTANCE (TEA)

Regarding the TEA program, the Rice Council has been able to effectively combine TEA funds with other programs to obtain substantial market development results. The program's current flexibility allows projects to be designed to best address the different and sometimes unique needs of industries in different markets around the world. And on that point, we would urge the committee to exercise a lot of caution in considering the consolidation of the program. It would need to first demonstrate what the advantages would be. There may be advantages, but we would indicate that the committee should proceed along those lines very cautiously.

Because of its proven effectiveness, we urge the committee to reauthorize the TEA program at a minimum funding level of $325 million.

COOPERATOR PROGRAM

Regarding the Cooperator Program, the rice industry was one of the first participants in the Cooperator Program. It was used to build substantial commercial markets for U.S. rice in Europe and the Middle East. Those markets still provide a major source of demand for U.S. rice today. Like TEA, the Cooperator Program is an excellent example of public-private sector cooperation. Reauthorizing the Cooperator Program will indicate the long-term, consistent support U.S. agriculture requires to compete in today's world markets.

CONCLUSION

Mr. Chairman, in conclusion, the export and market development programs you are reviewing today have proven to be effective tools to help U.S. agriculture and the rice industry remain competitive in international markets. Reauthorizing these programs will send the right signal to competitor nations that the United States will not unilaterally disarm itself in international trade.

To be successful in today's international marketing environment requires programs that have flexibility and are quickly and easily adapted to changing conditions and which are oriented toward immediate results.

As efforts are made to assure the integrity of these important programs—and we believe it must be done—we urge you to try to avoid oversight and administrative requirements that might impair the export-enhancing abilities of these programs.

GAO indicates that among the recommendations it has made to improve the accountability of these programs, FAS has in fact implemented several. In other cases, recommendations have not been attempted due to lack of resources, especially staff. We recommend this committee give full consideration to identifying the level of resources required to administer these programs with current reporting requirements before adding additional accounting provisions.

Again, Mr. Chairman, thank you for the opportunity to comment on these programs. I would be happy to answer any questions you might have.

[The prepared statement of Mr. Graves follows:]

STATEMENT OF DAVID GRAVES, PRESIDENT,
RICE MILLERS' ASSOCIATION

Introduction

Good afternoon Mr. Chairman, my name is David Graves. I am President of the Rice Millers' Association. RMA is the national trade association for the U.S. rice milling industry. Our 25 mill members include both independent rice milling companies and farmer-owned cooperatives. Member facilities are located in five Southern states and California. RMA also has 30 associate members, including major U.S. rice exporters.

I also appear here today on behalf of our sister organization, the Rice Council for Market Development. The Rice Council, a non-profit organization headquartered in Houston, Texas, is comprised of rice farmers, rice millers and other segments of the industry and is the cooperator arm of our industry that contracts with the Foreign Agricultural Service (FAS), USDA.

With members' voluntary contributions, the Rice Council conducts activities to increase the consumption of all types of U.S. rice in both domestic and foreign markets. The Rice Council maintains foreign market development offices in Zurich, Switzerland and Abbidjan, Ivory Coast.

Under the leadership of members of this committee and other members of Congress, programs such as GSM-102 and 103, EEP, TEA and the Cooperator Program were provided a prominent role by the Food Security Act of 1985 to help stop the slide of agricultural exports and thereby stabilize the farm economy. These export and market development programs have played a key role in the recovery of the rice industry, as well as other commodity industries, since enactment of the 1985 Act.

Mr. Chairman, the U.S. rice industry depends heavily on foreign markets. Over the past five years, an average 54 percent of total rice production has been exported annually, averaging $700 million. But, as you well know, simple volumes and values do not tell the entire story. USDA studies show that each $1 of U.S. exports creates an additional $1.65 in associated economic activity. Thus, rice exports annually generate an additional $1.2 billion in economic activity. According to this analysis, rice exporting is nearly a $2.0 billion industry.

Although rice ranks 10th in U.S. agricultural exports, the ability to successfully export has a substantial regional economic impact because production and milling are heavily concentrated in six states. Moreover, when as much of an industry's economic future rests on exports as is the case for rice, the value of consistent and long-term market access and development programs, especially those that establish legitimate partnerships between government and industry, become extremely clear.

Mr. Chairman, in that regard, we appreciate the opportunity to comment on and provide recommendations for the export and market development programs being examined by the committee today:

CCC CREDIT GUARANTEE PROGRAMS: GSM 102 & GSM 103

The GSM 102 and GSM 103 credit guarantee programs have been highly effective in facilitating export sales of U.S. rice. Of course, exports of all agricultural products under GSM programs are commercial sales. During the 1988-89 marketing year, 80 percent of rice exports were shipped on a commercial basis, of which over one-third carried a GSM credit guarantee.

In the last fiscal year, GSM credit guarantees totaling $275 million were made available to countries to import U.S. rice. Countries purchasing U.S. rice because of GSM credit guarantees included Ecuador, Iraq, Jordan, Mexico, Senegal and Turkey.

The growing number of countries registering purchases of U.S. rice under the GSM program points to its effectiveness as a market development tool. For example, Mexico has emerged as a significant commercial market for U.S. rice in the past two years. This emergence was facilitated by GSM-102. Prior to availability of GSM credits, Mexico was not a market for U.S. rice. In fiscal year 1989, USDA figures show Mexico registered $50 million in purchases of U.S. rice. Thus far in fiscal year 1990, Mexico has registered $21 million for rice under the GSM program.

GSM programs have provided credit guarantees for approximately $30 billion in agricultural exports since their inception. Over the life of the programs, while there has been some debt rescheduled, outright defaults have occurred on only .008 percent [or .8 of 1 percent] of guarantees extended. This impressive program record is the result of diligent oversight by this committee and professional administration by FAS, USDA.

In our rapidly changing world, there are increasing marketing opportunities for food and fiber products. To ensure U.S. agriculture competes effectively for any growth in demand, we recommend an expansion of GSM programs from the present $5.5 billion operating level should be considered. However, the integrity of the credit guarantee programs must be maintained if they are to retain broad congressional and public support and continue building on their successful track record. Furthermore, we recommend this committee review the adequacy of FAS resources to provide proper program administration and oversight to ensure objectives are accomplished without waste, fraud and abuse and with equity for all eligible products.

Lastly, Mr. Chairman, we commend the committee for allowing the GSM programs to operate without onerous reporting and interagency clearance requirements which are characteristic of other programs such as PL-480. We believe this point is important to ensure the continued effectiveness of the programs and recommend the committee safeguard it carefully.

Export Enhancement Program (EEP)

The U.S. rice industry has not used the EEP as extensively as some other commodities. However, we have found it necessary to employ EEP in carefully targeted markets to counter unfair export subsidies for medium grain rice exports by the European Community. In this context, EEP has been used in two markets, Jordan and Turkey, to facilitate a total of 200,000 tons of U.S. rice exports.

We strongly urge retention of EEP in the 1990 Farm Bill, so the United States can maintain leverage against unfair trading practices of other nations, in particular the export restitution program of the European Community. We recommend EEP be re-authorized at not less than $1 billion.

Agriculture generally supports re-authorizing EEP as an export assistance tool. The Administration generally supports keeping the program as a trade policy tool. On this last point and in connection with EEP funding authorization, it is interesting to note a GAO statement in testimony on November 16, 1989 before a House Committee on Agriculture joint Subcommittee hearing. GAO said, in part, "It remains an important trade policy tool if for no other reason than that unilaterally abandoning it would weaken the U.S. negotiating position with the EC. However, because of large, continuing EC export subsidies, funding EEP at adequate levels is important to maintaining the program's credibility as a trade policy tool."

Targeted Export Assistance (TEA)

The Rice Council for Market Development presently operates market development programs in over 60 countries utilizing $10.4 million in TEA funds. The rice industry cooperator has been able to effectively combine TEA with other programs to attain substantial market development results.

One of the more notable programs presently underway is the Japanese project. The chief aim of this program is to help obtain access to the Japanese rice market, which now bans virtually all imports, by communicating to the Japanese public information about the taste and high quality of U.S. rice. Given the high domestic rice price and armed with accurate information about the U.S. rice industry, Japanese consumers and other interest groups can be expected to be more supportive of trade liberalization.

Through the TEA program, the industry is working to clear up misinformation circulating in Japan about U.S. rice and about the U.S. rice industry's intentions. The TEA program sponsored project will help ensure the Japanese people have the real facts.

Because of its industry-wide support and proven effectiveness, we urge the committee to re-authorize the TEA program at a minimum funding level of $325 million. We believe TEA is an excellent example of how government can work hand in hand with the private sector to increase export opportunities for U.S. farmers and agribusiness. Moreover, the program's current flexibility allows projects to be designed to best address the different and sometimes unique needs of industries [such as our Japanese project] in different markets around the world.

Cooperator Program

The rice industry, through the Rice Council for Market Development, was one of the first participants in the Cooperator Program. Our industry has a good record with this program. It was used to build substantial commercial markets for U.S. rice in Europe and the Middle East. Those markets still provide a major source of demand for U.S. rice today. Like TEA, the Cooperator Program is an excellent example of public-private sector cooperation. Re-

authorizing the cooperator program will indicate the long-term, consistent support U.S. agriculture requires to compete in today's world markets. We recommend the cooperator program be re-authorized at such resource levels dictated by world market demands.

Conclusion

The U.S. rice industry has made significant investment in infrastructure and marketing to advance the competitiveness of our industry. In this endeavor the industry has worked closely with the Congress and the Administration to maximize rice export opportunities.

Not competing for rice markets today as the world grows more competitive could do long-term damage to the U.S. industry's ability to foster economic growth in rural America.

The export and market development programs you are reviewing today provide U.S. agriculture and the rice industry with effective tools for remaining a competitive player in international markets, and gaining new markets in a rapidly changing world. Re-authorizing these programs will send the right signal to competitor nations that the U.S. will not unilaterally disarm itself in international trade.

To be successful in today's international marketing environment requires flexible programs that are quickly and easily adapted to changing conditions and which are oriented toward immediate results. As efforts are made to assure the integrity of these important programs, and we believe that must be done, we urge you to try to avoid oversight and administrative requirements that impair the export enhancing abilities of these programs.

GAO indicates that among the recommendations it has made to improve the accountability of these programs, FAS/USDA has implemented several. In many cases other recommendations have not been attempted due to lack of resources, especially staff. We recommend this committee give full consideration to identifying the level of resources required to administer these programs with current reporting requirements before adding additional requirements.

I thank you Mr. Chairman for the opportunity to present comments on these important export assistance programs. At the appropriate time, I would be happy to answer any questions you may have.

Senator BOREN. Thank you very much, Mr. Graves.

I think all of you have mentioned in various ways the need to make sure we have adequate personnel at FAS to carry out the current mandate, to ensure the integrity of the program, and that is a point that we have duly noted, and certainly I will pass that on to Chairman Leahy, and we will also pass on these comments to the members of the relevant Appropriations Committees as well that work with us, because I think this is a very important point and one which should not be neglected because it is a very important part of keeping public support strong for these programs and understanding of these programs. So it is a point that I am glad you emphasized in your concluding testimony.

Let me just thank all of you for being here. You and the members of the earlier panel have made a very strong record.

Here is Senator Cochran, arriving just in time to have the final word or ask the last question.

Senator COCHRAN. Mr. Chairman, you are kind.

Senator BOREN. Are there any last comments you want to make?

Senator COCHRAN. I just came by to say thank you to the final panel and apologize to you for not being able to be here for the entire hearing. We had a group of folks from Mississippi upstairs, getting a briefing from me and my staff on what is going on here.

Senator BOREN. I should have sat in on that. [Laughter.]

Senator COCHRAN. We could have all gone up there and listened to my staff talk about that.

David Graves, as you know, is a former staff member of mine and a constituent from Mississippi, so I wanted to be here and give a special greeting to him and to other members of the panel, too.

These are important groups that are represented here, and I can tell you, this is the backbone of American agriculture when you think about it, and it means so much to our economic health that these groups are able to sell what their members produce in the international market.

So I appreciate your giving us the benefit of your thoughts, and I look forward to looking over the statements and being sure, working with you, Mr. Chairman, that we get good, strong programs.

Senator BOREN. Well, I just committed you, with your committee assignments, to helping us make sure that the FAS has all the personnel and the help they need, which we have heard from several members here, and that is something we are certainly going to work on as well, getting authorizations up where they need to be and then making sure that the FAS has the personnel, because several have commented on the fact that there is a real concern with the burdens placed upon them, really, due to the growth and success of the program. It is the kind of problem in some ways that you like to have because it shows it is being successful and getting our export volumes up, and that is something I know we'll be focusing on and you will focus on in terms of other hats that you wear in other committees.

But Senator Cochran, as I said in the beginning, has been a real, solid rock in terms of his support for these export enhancement initiatives and all of these tools that we've talked about today, and I appreciate your making the effort to get back before we concluded.

So the two of us and the others who have been here today will be carrying this message to the rest of the committee very forcefully.

I have indicated to the chairman that I hope we can take the trade section on very early in terms of our writing of the next farm bill so that we can send the appropriate signals, signals which we certainly are very sincere about and which we mean what we say to those who are also engaged in the trade negotiations at that time. So we are going to try to move out sharply on this issue and early on in the debate. And the record you have made today is one that will help the understanding of the full committee and the full Senate immeasurably, I think, as we take up these matters.

So we'll stand in recess, but I want to again thank all of you for being here with us today.

[Whereupon, at 4:22 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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